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REPORT

WINDS OF CHANGE, OR MORE OF THE SAME?

IMPACT OF THE 2018-19 ELECTION CYCLE ON ENERGY SECURITY AND CLIMATE POLICIES
IN THE BALTIC STATES, POLAND AND FINLAND

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Cover page photo: Steam billows from the cooling towers of Vattenfall's Jaenschwalde brown coal power station behind wind turbines near Cottbus, eastern Germany (REUTERS/Scanpix/Pawel Kopczynski)

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LIST OF ABBREVIATIONS

AST	<i>Augstsprieguma Tīkls</i> [High-voltage Grid]
bcm	Billion cubic meters
BRELL	Belarus-Russia-Estonia-Latvia-Lithuania [agreement]
CCGT	Combined cycle gas turbine
CEF	Connecting Europe Facility
CO ₂	Carbon dioxide
COP24	24th Conference of the Parties to the United Nations Framework Convention on Climate Change
EKRE	<i>Eesti Konservatiivne Rahvaerakond</i> [Conservative People's Party of Estonia]
ENTSO-E	European Network of Transmission System Operators for Electricity
ENTSO-G	European Network of Transmission System Operators for Gas
ETS	Emissions Trading System
EU	European Union
GIPL	Gas Interconnector Poland-Lithuania
GWh	Gigawatt-hour
HVAC	High-voltage alternating current
HVDC	High-voltage direct current
IAEA	International Atomic Energy Agency
IPCC	Intergovernmental Panel on Climate Change
IPS/UPS	Integrated Power System/ Unified Power System
JTF	Just Transition Fund
kW	Kilowatt
LNG	Liquefied natural gas
LULUCF	Land-use, land-use change and forestry
LVŽS	<i>Lietuvos valstiečių ir žaliųjų sąjunga</i> [Lithuanian Farmers and Greens Union]
MPC	Mandatory procurement component
MtCO ₂ e	Metric tons of carbon dioxide equivalent
Mtpa	Million tonnes per annum
MW	Megawatt
NGO	Non-governmental organisation
NPP	Nuclear power plant
NS2	Nord Stream 2
PiS	<i>Prawo i Sprawiedliwość</i> [Law and Justice]
PSE	<i>Polskie Sieci Elektroenergetyczne</i> [Polish Power Grids]
P-TEC	Partnership for Transatlantic Energy Cooperation
RES	Renewable energy source
SDP	Social-Democratic Party
SEI	Stockholm Environment Institute
SMR	Small modular reactor
SUPO	<i>Suojelupoliisi</i> [Finnish Security Intelligence Service]
TJ	Terajoule
TS-LKD	<i>Tėvynės Sąjunga-Lietuvos krikščionys demokratai</i> [Homeland Union-Lithuanian Christian Democrats]
TSO	Transmission system operator
TWh	Terawatt-hour

EXECUTIVE SUMMARY

By coincidence perhaps more than design, the ‘winds of change’ in the twelve months between autumn 2018 and 2019 ushered in new governments—whether through national elections or through coalition reshuffling—in five Baltic Sea littoral states: Finland, Estonia, Latvia, Lithuania, and Poland. Yet, amidst sometimes rather turbulent domestic political debates, one key cluster of topics was virtually absent: energy security and climate policy. With the vital exception of Finland—a state with a relatively strong Green movement and long tradition of climate and environmental activism—no country saw climate or energy security targets raised as key campaign issues. To the extent that energy security topics were mentioned at all, they either were minimized due to parties’ fear of alienating key voting blocs (as with the coal mining sector in Poland), confined to energy stakeholders and technical audiences due their complexity (as with electricity desynchronisation in the Baltic countries) or completely assimilated into a cross-party foreign policy consensus (as in the universal opposition in Lithuania to the Astravyets nuclear power plant project in Belarus).

While domestic factors—including perceived national interests in ensuring energy self-sufficiency—contributed to a serious case of policy inertia, small and interconnected countries do not of course exist in a vacuum. Accordingly, international factors—from the continuing use of energy policy as an instrument of geopolitical power by Russia, to the growing consensus in the EU in favor of more ambitious climate targets—have done more to raise the salience of these issues, especially after the von der Leyen Commission took office in Brussels at the end of 2019 and put forward the so-called European Green Deal. These exogenous factors have finally, for instance, triggered a broader reassessment in Estonia of that country’s rather leisurely planned phase-out of oil shale power generation, while pushing political leaders in all five countries at least rhetorically to embrace the goal of a carbon-neutral future (albeit with considerable differences in timelines and methodology).

Amidst a volatile international economic and geopolitical context that—since the time work began on this report—now includes a major global pandemic and a dramatic fall in fossil fuel demand and prices, the region’s political and economic leaders clearly cannot count on being able to make their policy selections in a vacuum. While the goal of an integrated regional energy market is closer than ever to being achieved, regional cooperation still has much to be desired; differing attitudes to issues both technical (e.g. harmonising natural gas regulations, which has left Lithuania outside a new regional market) or fundamental (importing third-country electricity generated without regard to EU climate or pollution standards) leave all five countries less able to respond to challenges ahead.

While the region’s countries have largely relied on Brussels to broker compromises (often with the help of considerable funding), in a post-pandemic world, both the political bandwidth and financial resources will likely be constrained. In its country sections, this report captures a valuable snapshot of the relative inertia as well as the degree of evolution of the energy and climate policies of the five countries in the face of that year’s fairly calm international context. Given the significant economic, human, and political changes underway as a result of the pandemic, however, it is an open question to what extent the region can weather the far more turbulent times ahead. The political and societal willingness to pursue the energy transition to a carbon-neutral future through new—more ambitious and certainly more expensive—energy and climate policies as a response to the climate emergency will very much depend on how the impact of the pandemic plays out globally, in Europe and in the Baltic area. It will also require strong leadership from a new generation of political, business and societal leaders able to see green recovery as a major opportunity for their nations in terms of economic development, social welfare and national security.

INTRODUCTION

In a space of one year, from autumn 2018 until autumn 2019, five countries of the Baltic region have undergone a period of political change. **Latvia's** new government emerged from a complex and protracted coalition-building in late 2018. In spring 2019, both **Estonia** and **Finland** held parliamentary elections that led to the formation of new governing coalitions. At the same time, **Lithuania** chose a new president—who in that country's system plays an important role in national security and foreign policy-making; moreover, a cabinet reshuffle that summer brought several new parties and ministers into government. In national elections later that year, the governing party in **Poland** retained control of the lower chamber of parliament, but lost its majority in the upper chamber. All these electoral events produced shifts in the political landscape that will shape national and regional policies not only on individual issues, but on topics that cut across sectors—such as energy.

The aim of this study is to analyse the impact of the political cycle of 2018-2019 on the energy security and climate policies in these five EU member states located along the Baltic Sea coast. In each case study, it investigates the following questions:

- How salient have energy and climate policy—as well as energy security—topics been in the political agenda of each country prior, during and after its elections? Why?
- What are the main issues on this agenda, and what are the views held towards those issues by the political actors now in government? Have these created major fault lines in national political discourse?
- What are the anticipated or expected changes in the energy and climate

policies of each country? What the main obstacles in pursuing those changes? To what degree has continuity been maintained with existing strategies and policies?

- How is the country's government (re)defining national interests and priorities in energy policy? What will be its main 'signature' policy initiatives or 'flagship' projects in this area?
- Is the national assessment of energy security and climate threats evolving as a result of the political changes? How?
- How is the government framing energy security challenges related to Russia and Belarus? What role does it see for the US and the EU in tackling those challenges?
- What is the new government's perspective on the EU's energy and climate policies and strategies?
- How does the government view regional energy cooperation in general, and ongoing or planned strategic infrastructure projects? How does it define national interests vis-à-vis other regional players—and how does it perceive policies and positions of those players?
- What are the political risks in each studied country to strategic energy projects, cooperation initiatives and overall energy security in the Baltic region?

While this report was being drafted, a new European Commission led by Ursula von der Leyen took office in late 2019, as a result of the European Parliament elections held in May of that year. The new Commission immediately launched the European Green Deal, a very ambitious initiative that seeks to turn Europe into a carbon-neutral continent by 2050.¹ It entails a profound transformation not only of Europe's energy, transportation, industry, agriculture, housing and consumer sectors, but also of its overall technological base—all within

¹ See European Commission, "[The European Green Deal: Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions](#)," COM(2019) 640 final, 11 December 2019.

a relatively short period of time. The disruption to the entrenched economic models and investments might be of such a scale that some EU Member States are pausing to reflect on whether they would be able to commit themselves wholeheartedly to this initiative in its current form—while all need to consider what kind of measures they would need to pursue to mitigate the plan’s impact on those most exposed to the transformation. The key political actors in each country have had quickly to articulate responses to this initiative based not only on cost-benefit analyses but also on the unique political, societal and economic characteristics and interests of each country. The report accordingly, captures and reflects the impact of the European Green Deal on governmental policies and national debates in the five countries.

For this report, we considered political rhetoric and electoral manifestos in each country—as well as public sentiment towards energy and climate issues; reviewed the programmes and strategies guiding the work of each newly-formed government; monitored public statements and activities by officials and institutions; and, in some cases, conducted interviews with key energy and climate policymakers and experts.

By presenting the findings, insights and analysis based on this research, the report sheds light on the energy and climate policies of the five studied nations while exploring the degree of change and continuity of these policies as shaped by the domestic political developments. It will help readers to better to assess the political risk as well as the possible opportunities to enhance energy security and cooperation across the region—especially as countries seek to fulfil the climate policy goals that each nation sets for itself within the context of EU benchmarks and ambitions.

1. ESTONIA²

1.1. THE 2019 ELECTIONS: NO MAJOR CHANGE?

Neither climate policy nor energy security were among the most important issues in the election manifestos of Estonia’s main political parties in the run-up to parliamentary elections in spring 2019. None of the political actors seem to have identified the sector as a major opportunity for differentiating themselves from their competitors, or as representing an area for potential policy changes in direction.

These topics, however, were important elements in the policy programmes of the previous governments, albeit driven by the broader objective of trying to achieve the goals set by the EU. In general, Estonian energy and climate policy has been governed by two strategic documents approved in 2017: the National Development Plan of the Energy Sector until 2030 and General Principles of Climate Policy until 2050. The goal of the latter is to decrease CO₂ emissions in Estonia by 80% compared to 1990 levels, establishing interim

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goals of a 70% reduction by 2030 and 72% by 2040. It thus envisages a number of important policy measures such as:

- Encouraging key actors in the energy and industry sectors to **reduce greenhouse gas emissions** in an efficient and cost-effective manner while continuing the use of market-based mechanisms;
- Ensuring energy security and security of supply by gradually **expanding the use of domestic renewable energy sources**

² This chapter partly draws upon four interviews carried out during November 2019 with representatives of the Estonian Parliament (Riigikogu), government, energy industry and non-governmental energy expert community; all spoke on the condition that their remarks not be attributed for publication in this report.

(RES) in all sectors of final consumption, with a view to increasing the welfare of society as a whole;

- Promoting the **greater use of more efficient vehicles and sustainable alternative fuels** through public-sector investments and tax policies;
- Prioritising the development of **energy-efficient and non-motorised forms of public and freight transport**;
- Developing and maintaining significant **land carbon stocks**, especially in agricultural land;
- Enhancing the production and exploitation—notably in energy-intensive manufacturing processes—of **bioenergy**;
- Increasing forest growth and carbon sequestration ability through **productive and sustainable woodland management**;
- **Avoiding further drainage of wetlands** while restoring near-natural water regimes in drained peat bogs;
- Continuing to **reduce waste generation** while making separated waste collection more efficient.³

As for the National Development Plan, the 2030 targets for Estonia's energy sector will be met when certain specific expected outcomes are achieved, including the following:

- Fuel and electricity markets operate in a free, unsubsidised and open manner;
- Electricity generated from renewable sources accounts for 50% of domestic final electricity consumption, while new renewable electricity generation capacity is built under the conditions of an open electricity market without additional domestic subsidies;
- The share of the largest supply source in Estonia's gas market does not exceed 70%;
- The share of the largest gas seller in Estonia's gas market does not exceed 32%;

- 80% of heat generated in Estonia is generated from renewable sources; the importance of local energy sources for heat generation has increased through the use of peat. (The target is to be met primarily through market mechanisms);
- Renovation efforts have improved the energy efficiency of buildings (40% of small residential buildings are energy efficiency class C or D, 50% of apartment buildings and 20% of non-residential buildings are class C);
- New buildings have an energy performance indicator that conforms to the requirement for nearly zero-energy buildings;
- Fuel consumption of vehicles in 2030 does not exceed 2012 levels (8.3 TWh).⁴

On energy security and regional cooperation, Estonian efforts in recent years have focused on two initiatives: the planned synchronisation of the Baltic electricity grid with that of Continental Europe, and the creation of a Finnish-Estonian-Latvian joint gas market (made possible after the December 2019 completion of the Balticconnector undersea gas pipeline from Estonia to Finland.)

After the elections, energy and climate policy topics have gained momentum first due to a high CO₂ price that, in conjunction with the imports of electricity from Russia, resulted in layoffs in the Estonian energy sector.⁵ Second, the Estonian government publicly hesitated to adopt the EU's ambitious goal of achieving carbon neutrality by 2050.⁶ This hesitation was due to its desire first to carry out an analysis to understand the scale and feasibility of the commitment. After a study was conducted by the Stockholm Environment Institute (SEI)—which found that Estonia would need to invest

³ Riigikogu (Parliament of Estonia), [General Principles of Climate Policy until 2050](#) (Tallinn: Ministry of the Environment, April 2017).

⁴ Government of Estonia, [National Development Plan of the Energy Sector until 2030](#) (Tallinn: Ministry of Economic Affairs and Communications, October 2017).

⁵ Electricity generation in Russia is not subject to EU environmental rules or CO₂ quota obligations, thereby creating a market distortion that has led to unfair competition between EU and Russian electricity generators. Russian electricity—imported via Lithuania and Finland—amounted to 10% of regional consumption in the three Baltic states plus Finland (13 TWh) in 2018. See [“Russia and Belarus electricity suppliers exploit EU law, grow in Baltics,”](#) ERR/ERR News, 10 January 2019.

⁶ Epp Ehand, [“Euroopa valitsusjuhid jätsid 2050. aasta kliimanetraalsuse joone alla”](#) [European heads of government keep 2050 as the deadline for climate neutrality], ERR, 20 June 2019.

€17.3 billion to achieve carbon neutrality by the target date—in October 2019 the government duly approved the objective.⁷

Public communication explaining the reasoning for the government's hesitation has been relatively poor, while the inclusion of the

The coalition partners in the Estonian government do not seem to have conflicting positions on either climate or energy policy topics. They seem to have chosen a pragmatic approach to following EU policies and meeting the country's EU obligations

Estonian Conservative People's Party (EKRE) in the governing coalition created the impression that climate change deniers have come to power and may stymie Estonia's efforts to align its policies with those of the rest of the EU. However, EKRE does not appear to have a particularly strong ideological position on climate change; it employs climate-change denying rhetoric opportunistically in order to distinguish itself from its political competition, while also mimicking similar rhetoric from similar parties in other countries.

Accordingly, the coalition partners in the Estonian government do not seem to have conflicting positions on either climate or energy policy topics. They seem to have chosen a pragmatic approach to following EU policies and meeting the country's EU obligations; the unity of the new three-party governing coalition (composed of the Centre party, *Isamaa* party and EKRE) in pursuing the ambitious 2050 target has been surprisingly strong. Meanwhile, the opposition has been more than supportive; in fact, there seems to be a race between the coalition and opposition as to who appears to support carbon neutrality more. If one looks at individual parties more closely, EKRE and *Isamaa* have

been relatively more sceptical but are still doing as much as required, while Centre (the largest of the three coalition parties) and the main opposition Reform party seem both to be more forward-leaning and more willing to tackle yet more ambitious goals. From a practical point of view, the main question about the goal of carbon neutrality is whether Estonia can afford it—while, at the same time, retaining security of supply. In the current government, there appears to be a consensus—partly based on the findings of the above-mentioned SEI study—that achieving carbon neutrality is feasible and doable.

Despite this apparent public consensus, however, some interviewed experts privately claim that the current Estonian government lacks serious ideas on energy and climate issues, and has failed to anticipate and prevent challenges; it simply reacts to problems as they arise. It is probable that the CO₂ price will increase even further, as some interlocutors interviewed for this report argued; the government needs to take that into account, making adjustments to Estonian energy policy

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already now. According to those interlocutors, fossil fuels are not popular, and the world is on the verge of a major energy transformation and shift towards carbon neutrality; Estonia should thus strengthen its position so that it leads from the front instead of lagging behind.

⁷ Siim Meeliste et al, [Eesti Kliimaambitsiooni tõstmise võimaluste analüüs](#) [Analysis of the possibilities to raise Estonia's climate ambitions] (Tallinn: Stockholm Environment Institute, September 2019); Ege Tamm, "[Valitsus otsustas toetada kliimanetraalsuse saavutamist](#)" [The Government decided to support achieving climate neutrality], *Postimees*, 3 October 2019.

1.2. CONTINUITY—WITH FRICTION

Energy and climate policy in Estonia is continuous policy, which means that no ground-breaking shifts or changes should be expected during this parliamentary term. The objective of reducing carbon emissions in the energy sector (as well as in the economy in general) has been long established in national plans. With the growing attention to climate concerns, the focus on decarbonisation and carbon neutrality has also increased—and may even drive change in other sectors as well. However, as long as the details of the new EU carbon neutrality policy remain unclear, no major changes to the already approved long-term national plans should be expected. That said, it remains to be seen what the impact on these plans will be of the European Green Deal, or of the generally more assertive and ambitious EU climate policy under the leadership of Ursula von der Leyen's Commission.

In this respect, it is important to note that while the Estonian energy sector is strongly affected by the EU Emissions Trading System (ETS)—it covers about 70% of national carbon emissions—Estonia's power to influence the system is rather small. As a result, the CO₂ price represents about half of the price paid by the final consumer for electricity generated in Estonia. As the coronavirus pandemic engulfing much of the world beginning in spring 2020—and the developing global economic crisis—have put the Estonian government under pressure, current Minister of Finance Martin Helme (EKRE) has even suggested that Estonia should explore ways of temporarily withdrawing from the ETS in order to reduce the price of electricity and facilitate economic recovery.⁸ At the time of writing, it remains to be seen how this proposal will be viewed by coalition partners and the European Commission. However, when it comes to the non-ETS sectors, the government seems to seek an increasingly active role, e.g. by pursuing railway electrification or increased industrial

energy efficiency. The required investments will constitute an important part of the economic recovery package for the post-pandemic period.

While the role of the EU agenda in shaping Estonia's national plans and priorities is significant, the country's assessment of energy security and climate threats is also evolving due to the loss of market viability of the old generation of oil shale power plants. With insufficient new generation capacity being introduced to replace completely those plants coming offline, overall electricity production capacity is decreasing—and therefore having a major impact on security of supply. With less

From a decarbonisation point of view, the problem is that some large investments have already been made in the Estonian energy sector to continue using oil shale rock for producing electricity or shale oil

redundancy (and thus resilience) in the energy sector, the government is confronted with hard questions about contending with the loss of income from exporting surplus electricity produced in those plants, maintaining competitive market and increasing domestic production by sending appropriate signals to investors about the long term prospects of investing in new production capacities.

Some interviewees suggested the energy sector should be careful about making new investments in fossil fuels; since it could increase the amount of stranded assets, they argued, the focus should instead be maintained on renewable energy as well as customer based solutions and innovation. From a decarbonisation point of view, the problem is that some large investments have already been made in the Estonian energy sector to continue using oil shale rock for producing electricity or shale oil.⁹ Moreover, due to continuing demand, some additional new investments into shale oil production plants are pending; from an economic perspective, it would thus not be reasonable to leave the resource in the ground

⁸ "Helme wants Estonia temporarily out of EU emissions trading system," ERR News, 6 April 2020.

⁹ David Crouch, "Estonia sees a bright future for oil shale," *The Financial Times*, 5 June 2015.

even if it does not conform to energy transition goals and climate policies. In this perspective, the European Green Deal is seen as a major threat to the industry—and even a violation of investor expectations (based as they were on

For now the Estonian government has declared that, in the short and medium term, energy security and economic development considerations prevail over carbon neutrality, arguing that the state has clear interests in preserving the oil shale sector

pre-Green Deal national energy plans) that requires compensation. However, the European Green Deal envisages providing only €125 million in compensation to affected Estonian businesses through the planned EU Just Transition Fund (JTF)—a figure that is seen by some industry representatives as woefully inadequate.¹⁰ The opposing argument—advanced by the Reform Party, among others—is that perhaps Estonia should completely turn its back on fossil fuels for electricity production, write off the bad investments (in terms of environmental sustainability and energy transition) already made, and leave oil shale in the ground for the time being.¹¹ Oil shale is composed of many different elements, some of which are very valuable outside the energy sector—for example, the chemical industry. While the science and technology is not yet at the point to exploit this value fully, the argument goes, it is simply a matter of time until new ideas appear about how to better utilise this resource outside the energy sector—and thus, in complete alignment with the country's energy transition goals.

For now the Estonian government has declared that, in the short and medium term, energy security and economic development considerations prevail over carbon neutrality, arguing that the state has clear interests in

preserving the oil shale sector. For example, in August 2019, the state-owned energy company, Eesti Energia, announced that 1,000 MW of generating capacity in Narva will be kept in reserve until 2023.¹² (Due to the high CO₂ price, continuous operation of those power plant units in Narva was not feasible in a competitive electricity market). Moreover, the government made a decision to support building of a new shale oil pre-refining plant, thus provoking a protest from the environmental organisations and drawing accusations of violating Estonia's international commitments.¹³ From those decisions it can be inferred that for this government, the goal of carbon neutrality is more distant than concerns about energy security, security of supply and the economy as a whole. The government does not oppose the objective of carbon neutrality; however, it wants to ensure that this goal does not become a source of heightened economic and security risks. It also must be noted that political considerations might have played an important role in crafting this approach: the heavily Russian-speaking population in the oil shale mining region of north-eastern Estonia represents an important segment of the Centre's base of support.

However, even while it sends signals about continuing to rely (at least partially) on oil shale, the government is also preparing the

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future ground for what is often referred to as 'Põxit' (from *põlevkivi*, the Estonian for 'oil shale')—that is, abandoning the use of this fossil fuel source in power generation, while mitigating its socio-economic impact. For instance, it approved plans to switch newer

¹⁰ "VKG: If EU Green Deal damages oil industry, state must pay compensation," ERR News, 11 February 2020.

¹¹ "Kaja Kallas: põlevkivisse jätkuv investeering pole mõistlik" [Kaja Kallas: Continued investments in oil shale are not prudent], ERR, 14 November 2019.

¹² "Eesti Energia koondab 324 töötajat" [Eesti Energia is laying off 324 employees], ERR, 3 September 2019.

¹³ "Government greenlights new €286 million oil shale plant," ERR News, 27 March 2020; "Organizations: Estonian government shale oil goals contradict EU agreements," ERR News/BNS, 12 May 2020.

power generation units in Narva to biomass.¹⁴ Estonia's power grid companies have also directed significant efforts to accommodating a much greater share of renewables in the system.

Indeed, the European Green Deal and decarbonisation of the economy are being increasingly touted by some senior Estonian officials, legislators and entrepreneurs as a

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major opportunity for an economic transformation on par with the 'tiger's leap' digital revolution that has propelled Estonia's development in recent years. For instance, one leading technology entrepreneur framed it as "the biggest business opportunity for Estonia since the Internet revolution."¹⁵ If this narrative gains traction in the country, it will have a powerful effect on mitigating the perception that the energy transition is only about losses—whether of a major industry or of energy self-sufficiency, jobs or social welfare. In this context, there has been a strong focus on renewable energy production and storage technology as well as electrification in the transport sector. There has also been some interest in small-scale nuclear power generation technology development, including even in building a small modular reactor (SMR) in Estonia.¹⁶ Although the ambition was endorsed by the Prime Minister Jüri Ratas as one of the elements of the country's energy transition, these potential plans already face opposition from the Green movement.¹⁷

¹⁴ "Government approves use of biomass in Narva power plants within year," ERR News, 13 June 2019.

¹⁵ Taavi Madiberk, "The fight against climate change is the biggest business opportunity for Estonia since the Internet revolution," Estonian World, 29 January 2020.

¹⁶ "Estonia Startup Hopes to Build First Small Modular Nuclear Reactor," Bloomberg Environment, 25 September 2019.

¹⁷ Madis Vasser, "Estonia, the wild east of small nuclear reactors," CEE Bankwatch Network, 10 February 2020.

Another recent example of policy continuity—albeit with some political friction—is the decision to allocate money to make wind power generation possible in north-eastern Estonia without negative impact on the country's military security—as Estonia's current air surveillance radar system is subject to interference from wind turbines.¹⁸ In early November 2019, the government agreed to purchase a new radar system expected to cost €72 million (including operational costs) over the next 20 years. This decision will allow new wind turbine generator parks to be developed, thereby resolving a long-standing dispute between private investors pursuing investment opportunities in renewable energy production on the one hand, and on the other a state responsible not just for

managing the country's energy transition, but also charged with responding to military threats (especially from Russia). As the investors involved in the dispute sought resolution through some EKRE ministers, the matter even threatened to spill over into an open political conflict between EKRE and its coalition partner *Isamaa*, which holds the position of defence minister.¹⁹ The episode has served to underscore that a genuinely whole-of-government and multi-stakeholder approach is required when balancing climate, economic and national security interests; it also highlights that that the country's energy transition may have unanticipated side effects and costs that must be accounted for in both energy and defence planning.

1.3. REGIONAL AND INTERNATIONAL DIMENSION

The Estonian position towards Russia and Belarus has not changed under the new government. Neither country is considered a trustworthy partner in terms of energy security; accordingly, the new government—like its predecessors—sees a strong need for

¹⁸ "Riik ostab uued radarid, et Kirde-Eestisse saaks rajada tuuleparke" [State purchases new radars to make development of windfarms in North-East Estonia possible], ERR, 7 November 2019.

¹⁹ "Wind farm brothers seeking to solve issues via Martin Helme," ERR News BNS, 4 December 2019; "Ministry of Defence confirms Kellavere radar is working," ERR News/BNS, 4 December 2019.

synchronisation with the Continental European grid and for the development of a gas network with diversified supply sources and routes. However, the government does not find it

Commission.²¹ Arguably, according to some interviewees, the current level of ministerial cooperation and collaboration among ministers of the Baltic states is insufficient. On the other hand, as the project enters the implementation stage, it is trust and technical coordination between the TSOs rather than political rhetoric and symbolism of cooperation that matter more.

However, it remains a project of high political significance. Although it plays no direct role in achieving carbon neutrality, desynchronisation is of major importance with regards to energy security and geopolitics.²² The success of this flagship project can be easily assessed; either the transition goes smoothly with no interruptions to power supply and no impact on system stability, or experiences failures that may cause blackouts and significant economic damage. While the

The Estonian position towards Russia and Belarus has not changed under the new government. Neither country is considered a trustworthy partner in terms of energy security

necessary to call extra attention to the matter in international media or domestic political debates.

To a large extent, projects aimed at reducing the dependence of Estonia and its fellow Baltic states on the energy supplies systems of Russia are funded by the EU—and thereby rooted in a shared vision for the future of the energy market. Furthermore, the United States emerged as an important partner in regional energy security efforts, notably through recently expanded cooperation aimed at increasing cyber resilience and bolstering the Baltic states' ability to protect critical energy infrastructure from cyber-attacks.²⁰ Overall, the Estonian government remains very open to regional cooperation, understands that certain common interests are achievable only through such cooperation, and wishes to promote and expand cooperation in areas of potential greater mutual benefit.

A major test to this cooperative posture is the planned desynchronisation from the IPS/UPS (i.e., Russian) power grid and synchronisation with that of Continental Europe. It is a key flagship project for the Estonian government and the national transmission system operator (TSO), Elering, with the most difficult parts of the project yet to be carried out (see chapter 3 for more details). It requires very close coordination and cooperation between the governments and TSOs of Latvia, Lithuania and Poland as well as with the European

One potential risk of a political breakdown in cooperation between the Baltic states is related to the issue of the Astravyets nuclear power plant (NPP) in Belarus, the first reactor of which is set to become operational this year

2025 anticipated completion date of the project is two years after the current Estonian parliament's mandate expires in 2023, any lack of progress—to say nothing of a collapse in regional cooperation—could backfire on the government, leaving it politically vulnerable during the next campaign (assuming it survives a full term in its present configuration).

One potential risk of a political breakdown is related to the issue of the Astravyets nuclear power plant (NPP) in Belarus, the first reactor of which is set to become operational this year. Lithuania insists on banning electricity imports from non-EU NPPs that it deems unsafe (see chapter on Lithuania); however, some other regional stakeholders (notably Latvia) do not

²⁰ "Balti riigid alustavad USA-ga koostööd oma energiavõrkude kaitsemiseks" [The Baltic states begin cooperation with the USA in order to protect their electricity networks], ERR, 7 October 2019.

²¹ European Commission et al, "Political Roadmap on the synchronisation of the Baltic States electricity networks with the Continental European Network via Poland," Brussels, 28 June 2018.

²² Emmet Tuohy et al, *The Geopolitics of Power Grids: Political and Security Aspects of Baltic Electricity Synchronization* (Tallinn: International Centre for Defence and Security, 2018).

seem to support this position. Part of the problem is that it is not possible to trace the source of electricity from a specific power plant. Even if Lithuania closes cross-border trade flows from Belarus, Latvia will likely continue to

Estonia's position is that only the EU, not any particular EU member state, can impose restrictions on electricity trade with third countries

import electricity from its eastern neighbour. Although there is no direct electricity trade between Estonia and Belarus (nor will there be in future), Estonia's position is that only the EU, not any particular EU member state, can impose restrictions on electricity trade with third countries; if such restrictions are imposed by Brussels, then Estonia will follow the rules.²³ It is not difficult to see how the positions of Riga and Tallinn regarding the Astravyets NPP could be perceived as a lack of solidarity in Vilnius, thereby leading to friction and even a breakdown of trust and cooperation on such strategic projects as desynchronisation.

Another topic, in the context of the desynchronisation, is the political risk from the Russian side on how potential electricity imports from Kaliningrad will be solved once the Baltic states exit the BRELL (Belarus-Russia-Estonia-Latvia-Lithuania) agreement and desynchronise from the IPS/UPS grid. While Lithuania and Kaliningrad are currently well-integrated parts of the same grid, connections will be limited—though to an unknown extent—after desynchronisation.²⁴

A number of new power plants have been built in Kaliningrad to ensure its ability to function independently.²⁵ Since the Kaliningrad region is a Russian exclave, EU rules and regulations—including on carbon emissions—do not apply, thus creating a situation of unfair competition with EU-based power plants if current trade flows remain in place. Currently, it seems that

the Baltic states do not support the creation of an 'energy island' within the EU; however, this consensus is bound to be continuously tested by Russia's actions.

An additional and related concern is that countries will put their own interests first in case of emergencies—despite the existence of a single regional electricity market. This means that the existence of good interconnections alone might not be sufficient to maintain security of supply during a large-scale crisis. To address this concern, different scenarios should be tested; moreover, continuous Nordic-Baltic political consultations should be held to facilitate trust-building and maintaining solidarity.

Yet another example of regional cooperation that highlights the difficulties of achieving and maintaining common strategic interests is the creation of a Finnish-Estonian-Latvian common gas market, which started operation at the beginning of this year—and which currently excludes Lithuania. Due to its different understanding of the nature of a common market, Lithuania was not ready to use the same principles for sharing income from gas transmission tariffs as the other three countries.²⁶ This necessitates further dialogue

It is not difficult to see how the positions of Riga and Tallinn regarding the Astravyets NPP could be perceived as a lack of solidarity in Vilnius

supported and stimulated by strong political will from all sides. Ultimately, a larger market will help consumers obtain better prices, while strengthening energy security for all four states due to the added import routes and stronger competition.²⁷ Yet, Lithuania may remain outside this new market at least for some time—thereby regional cooperation in energy security will be far from reaching its full potential.

²³ "Eesti ei välista Valgevene tuumaelektri kasutamist" [Estonia does not rule out using electricity from Belarus nuclear power plant], ERR, 26 May 2019.

²⁴ "Kaliningrad successfully tests independent local electricity grid," ERR News, 26 May 2019.

²⁵ Jo Harper, "EU-Russia power struggle flashes in Kaliningrad," *Central European Financial Observer*, 2 April 2019.

²⁶ "Prime Minister refuses to say if country will join common gas market," Delfi.lt/BNS, 7 June 2019.

²⁷ Andrei Belyi, *Stepping on the Gas: Future-Proofing Estonia's Energy Market and Security* (Tallinn: International Centre for Defence and Security, 2019).

2. FINLAND

The preconditions for Finland's climate and energy policy shifted significantly with the change of government in 2019. Prime Minister Juha Sipilä's government focused most of its efforts on jump-starting the Finnish economy. The government programme was built around the goal of ending the 'spiral of decline' that was perceived to have been caused in particular by lagging economic growth, rising unemployment and deteriorating

Climate change has not been a priority issue for the parties in Sipilä's government, with the Finns Party in particular having expressed scepticism about the need to prevent climate change in some of its statements

competitiveness. Other issues, by and large, were seen either as secondary or as potential ways to aid economic growth. Climate change featured rather prominently in the latter role, as the programme put a strong emphasis on strengthening the Finnish bioeconomy.

Meanwhile, the new government of then-Prime Minister Antti Rinne established climate change as a central focus of its attention.²⁸ The government programme—which pointedly begins with the words "climate change"—is built around the goals of a socially, economically and ecologically sustainable society. It emphasises that the economic competitiveness of Finland can be secured by combining the Nordic welfare state model with sustainable or even diminishing consumption of natural resources. This approach inevitably has had significant repercussions in energy policy.

The government has been in office for just a year, so the actual implementation of its policy goals is only beginning. It is therefore impossible to assess its achievements fairly at

²⁸ In December 2019—after this section was drafted—Antti Rinne resigned as Finland's Prime Minister and was replaced by Sanna Marin of the same party; the coalition composition and government programme remained the same.

this point. However, the shift in policy is notable in itself, as it represents a considerable increase in the ambition of Finnish climate policy.

2.1. SETTING THE STAGE: THE JUHA SIPILÄ CABINET, 2015-19

The government of former Prime Minister Juha Sipilä, which was in office from 2015 to 2019, saw the leading Centre faction join forces with the National Coalition and Finns parties. This grouping did not propose a fast track on climate policy. Traditionally, climate change has not been a priority issue for the parties in Sipilä's government, with the Finns Party in particular having expressed scepticism about the need to prevent climate change in some of its statements.²⁹ Meanwhile, discussion about the elections in 2015 had been dominated by the difficult economic situation, which added legitimacy to the government's focus on boosting economic growth.³⁰

However, in its programme, the government recognised environmental problems and climate change as national challenges.³¹ Its idea was to turn the risk into an opportunity to increase economic growth, as envisioned in the

The new government of then-Prime Minister Antti Rinne established climate change as a central focus of its attention

section entitled 'Bioeconomy and Clean Solutions'—which emphasises renewable and domestic sources of energy, particularly liquid biofuels and biogas. In addition, the government aimed to boost Finnish cleantech companies and the circular economy. Its main targets were to increase the share of renewable energy to 50% of final consumption, raise the

²⁹ Aino Tiihonen and Salla Vadén, "Eduskuntavaalit 2019 – ilmastovaalit?" [Parliamentary elections 2019 - climate elections?], Poliitikasta.fi, 10 June 2019.

³⁰ Erkkä Railo, "Voittiko vuoden 2015 vaalit valtiovarainministeriö?" [Did the Ministry of Finance win the 2015 elections?], Eduskuntatutkimuksen keskus, Turun yliopisto, 2016.

³¹ Government of Finland, "Finland, a land of solutions. Strategic Programme of Prime Minister Juha Sipilä's Government," Government of Finland, 29 May 2015.

percentage of domestic renewable energy to at least 55% and boost the portion of transport fuels from renewable sources to 40%, all by 2030. In 2016, the government published its National Energy and Climate Strategy 2030, outlining an implementation plan for these

Climate change became a major topic in the 2019 elections. All parties were therefore obliged to formulate credible future plans on climate and energy policy

targets. Finland also signed the Paris Agreement in 2016 and has remained committed to the EU's 2030 climate and energy framework.

Ultimately, the track record of Sipilä's government on fighting climate change has been rather mixed. It has been argued that the focus on bioeconomy has led to policies that prioritised wood-based fuels and energy sources, thereby increasing forest harvesting and depleting the carbon sink.³² According to an impact assessment that the government itself commissioned on the Energy and Climate Strategy, its planned actions would not reduce Finland's net emissions—as the decrease from other sectors would be offset by the increased utilisation of forests.³³

2.2. SHIFTING INTERESTS: THE 2019 PARLIAMENTARY ELECTIONS

The public discussion on climate change in Finland intensified considerably between the parliamentary elections of 2015 and 2019. In the media, the autumn 2018 report of the Intergovernmental Panel on Climate Change (IPCC) received unprecedented attention. According to survey data, public concern over climate change had increased considerably; the

share of respondents expecting the government to implement a stringent climate policy had risen from 52% in 2015 to 70% in 2019.³⁴

Therefore, climate change became a major topic in the 2019 elections.³⁵ In the media and in debates, the candidates were repeatedly asked about their views on issues like carbon sinks, emissions trading, and aviation tax.³⁶ All parties were therefore obliged to formulate credible future plans on climate and energy policy. However, according to an assessment carried out by civil society organisations, the Greens and the Left Alliance were the only two (of eight) parties that were committed to the policies necessary to achieve emissions reductions compliant with the Paris Agreement.³⁷

The elections of 2019 were a game changer for Finnish climate and energy policy. After the heated discussion during the campaigns it is

The elections of 2019 were a game changer for Finnish climate and energy policy. After the heated discussion during the campaigns it is unlikely that any government could have brushed climate action off its programme

unlikely that any government could have brushed climate action off its programme. This was reflected in the agenda for government negotiations, led by the social democratic SDP. Ultimately, climate change and the energy transition had an impact on the selection of the government parties. The successful coalition that emerged—made up of the SDP, the Greens, Centre party and the Left Alliance, was

³² Paavo Järvensivu, "Biotalous ohitti ilmastotavoitteet: Arvio Sipilän hallituksen ilmastopolitiikasta" [The bioeconomy overtakes climate targets: a review of Sipilä's government's climate policy], *Politiikasta.fi*, 12 April 2019.

³³ Government of Finland, *Energia- ja ilmastostrategian vaikutusarviot: Yhteenvetoraportti* [Impact Assessments on the Energy and Climate Strategy: Summary Report] (Helsinki: Government of Finland, 2017).

³⁴ "Ilmastobarometri 2019: Suomalaiset haluavat ilmastokriisin ratkaisut politiikan ytimeen" [Climate barometer 2019: Finns want solutions to the climate crisis to be at the heart of politics], *Ilmastobarometri*, press release, 18 March 2019.

³⁵ Mika Lehto, "Tässä ovat vaalien ykkösaieheet – kokenut tutkija yllättyi vihreitä ja perussuomalaisia hyödyttävästä tuloksesta täysin" [Here are the top elections - an experienced researcher is completely surprised by the result for the Greens and True Finns], *Ilta-Sanomat*, 4 April 2019.

³⁶ Piia Elonen and Minttu Mikkonen, "Näin puolueiden ilmastokannat eroavat toisistaan" [This is how the parties' climate positions differ], *Helsingin Sanomat*, 3 April 2019.

³⁷ Korvaamaton, "Ovatko puolueet tosissaan 1,5 asteen kanssa?" [Are the parties serious about 1.5 degrees?], *Korvaamaton*, 20 March 2019.

in many ways a coalition aimed at a progressive climate policy; nevertheless, it also required compromises.

2.3. CLIMATE POLICY IN TRANSFORMATION: THE RINNE CABINET (JUNE–DECEMBER 2019)

Out of the four governing parties, all but Centre have ambitious programmes on climate and energy. This is reflected in the new government programme, which is built on the principles of economic, social and ecological sustainability.³⁸

The new government has an overarching goal of Finland becoming the first country in the world to reach carbon neutrality, by 2035, but it also stresses the need to accomplish this in a fair and equitable way

The government has an overarching goal of Finland becoming the first country in the world to reach carbon neutrality, by 2035, but it also stresses the need to accomplish this in a fair and equitable way. In other words, the transition should be carried out in a way that will not deepen societal divides or increase inequality. The government provides an outline for achieving these goals in the first of its seven strategic themes. The plan includes a range of measures like abolishing the current industrial energy tax rebate, offering tax incentives for wind power and energy storage as well as supporting investments and innovations in new energy technologies.

The Rinne government also stresses the need to reform climate and energy policies on the European level. Although the programme does not mention the Energy Union or specific policies by name, it does strongly articulate a commitment to ensuring a carbon neutral EU by 2050. Finland also included climate change as one of the main themes of its EU presidency

during the second half of 2019. In addition, the government aims to reinforce Nordic cooperation on climate action, in particular through the integration and development of the Nordic electricity market and energy system as well as through joint research. In general, the programme suggests that Finland can globally be perceived as an actor punching above its weight on climate and energy policies.

In August 2019, the government published its draft budget for 2020—and immediately attracted criticism for not backing its ambitious plans with adequate financing. While the proposed objectives require large, systematic policies, the draft budget only enables isolated and relatively small-scale actions. Moreover, the Finnish Panel on Climate Change has pointed out that in order to achieve its goal of climate neutrality by 2035, Finland should cut its annual emissions by 35 million tonnes of CO₂ equivalent (MtCO₂e). However, only 25.8 MtCO₂e of emissions are currently covered by reduction plans that are in the implementation stages. This leaves an emissions gap of 11.95 MtCO₂e without any plan or implementation, and a further 7.2

There is an urgent need for both further plans and implementation if the Finnish government wishes to achieve the targets it has set for itself. In the absence of concrete steps, carbon neutrality targets are in effect rendered meaningless

MtCO₂e that are covered by plans not currently being implemented.³⁹ In other words, there is an urgent need for both further plans and implementation if the Finnish government wishes to achieve the targets it has set for itself.

³⁸ “Inclusive and competent Finland – a socially, economically and ecologically sustainable society. Programme of Prime Minister Antti Rinne’s Government 2019,” Government of Finland, accessed 15 October 2019.

³⁹ “Suomen hiilineutraaliustavoite vuodelle 2035 on mahdollinen, mutta toimia on nopeutettava” [Finland’s carbon neutrality target for 2035 possible, but action needs to be accelerated], Ilmastopaneeli, press release, 4 October 2019; Terhi Toivonen and Jyrki Hara, “Asiantuntijat budjettiesityksen ilmastotavoituksesta: Tehokkain toimi jäi uupumaan, kun turpeen verotukea ei poistettu” [Climate budget experts on budget proposal: The most effective action failed when peat tax support not removed], Yle Uutiset, 18 September 2019; BIOS, “BIOS:n asiantuntijalausunto: Hallituksen esitys eduskunnalle valtion talousarvioksi vuodelle 2020” [Expert opinion: Government proposal to Parliament on the state budget for 2020], BIOS Research Unit blog, 25 October 2019.

This is even more true due to the long-term investments required to carry out an energy transition. In the absence of concrete steps, carbon neutrality targets are in effect rendered meaningless, as any future government would be able to change them—and indeed might be obliged to do so in order to ensure security of supply.

2.4. FUTURE PERSPECTIVE: CHALLENGES TO THE MARIN CABINET (DECEMBER 2019– PRESENT)

Despite its ambitious goals and flexible tactics, Finnish energy and climate policy are faced with several challenges. One emanates from within the government, as there are a few significant points of contradiction among the parties currently in power. In particular, the Centre party differs from its government partners in continuing to support both forestry and wood harvesting as well as the utilisation of peat for energy; by contrast, the Greens and the Left Alliance have publicly questioned the sustainability of these activities.⁴⁰ The public

The Centre party differs from its government partners in continuing to support both forestry and wood harvesting as well as the utilisation of peat for energy; by contrast, the Greens and the Left Alliance have publicly questioned the sustainability of these activities

controversy creates uncertainty about energy and climate policy goals, and raises doubt about the ability of the government to put these goals into action.

These internal rifts within the government are particularly relevant, since these two issues are among the strongest challenges for Finnish energy and climate policy. In particular, forests have a significant role in efforts to reach carbon neutrality, both as carbon sinks and as sources

of renewable energy. These two functions tend to be in contradiction, however, as the increased utilisation of wood for energy will inevitably erode the carbon sink. Moreover, the EU agreement in 2017 to include the sector (known as land-use, land-use change and forestry [LULUCF]) in its climate targets means that increases in logging will have to be compensated by emissions reductions in other sectors. In 2017, Finland was successful in lobbying for flexibility in the way it accounts for forestry emissions; according to information obtained by civil society organisations, the government has maintained that position in ongoing negotiations.⁴¹ This already reflects negatively on the image of climate leadership that Finland has aimed to promote for itself, particularly during its Council presidency in the second half of 2019. Moreover, as the EU's own climate ambitions increase—something that, as mentioned above, is itself a goal for the current Finnish government—there is a real possibility that the EU will set far more stringent LULUCF accounting regulations. This could considerably limit the implementation of wood-based bioeconomy plans.⁴²

Finland's expectations that forestry and bioeconomy will play a role in its energy transition also have implications for energy security. In part, the role of these fuel sources was cemented by legislation passed by the outgoing Sipilä government in March 2019 banning the use of coal for electricity generation.⁴³ Although the move was welcomed by civil society organisations as a way to facilitate Finland's energy transition, it also complicates the search for alternative energy sources, as plans to replace coal in district heating have relied heavily on wood-based energy, especially in Helsinki. Concerns about the adequacy of biomass from domestic sources have led to suggestions that Finland

⁴⁰ Anton Rinta-Jouppi, "Tuoreen ministerin Krista Mikkosen lausunnoista roihaiti hallituksessa riita, metsien kohtalo jakaa edelleen keskustaa ja vihreitä" [Recent minister Krista Mikkonen's statement sparks controversy in government; fate of the forests continues to divide Centre and the Greens], *Helsingin Sanomat*, 6 June 2019.

⁴¹ "Finland endangers climate leadership position in EU," FERN, press release, 16 October 2019.

⁴² Tero Toivanen, "A Player Bigger than its Size Finnish Bioeconomy and Forest Policy in the Era of Global Climate Politics," in *Political Economy of Bioinequalities* (forthcoming).

⁴³ "The act banning the use of coal for energy generation in 2029 to enter into force in early April," Ministry of Economic Affairs and Employment, press release, 28 March 2019.

import wood from the Baltic region.⁴⁴ This source might not be available, however, as demand within the Baltic states themselves might crowd out competition.⁴⁵ The lower-emission option of using side flows of forestry biomass would especially not be likely to cover Finnish demand, presenting a clear risk to energy security. Moreover, Finland will likely have to burn wood directly, thereby cancelling out any emissions reductions benefit, as this method produces the same—or greater—CO₂ emissions as coal.⁴⁶

Finnish energy security is also linked to its neighbours in various ways. Russia has traditionally been an important source of oil and (especially) gas imports; in this sense a transition to sustainable energy gives Finland a

reported attempts to influence Finnish decision-making on energy policy, though it has not explicitly linked them either to Russia or to nuclear energy.⁵⁰ However, overall attitudes to nuclear power as a low-carbon energy source are relatively neutral; in the debates prior to the 2019 election, for example, the issue was largely absent. In the Rinne cabinet programme it features only once, in a commitment to renew permits for existing nuclear power plants as long as they are supported by the Radiation and Nuclear Safety Authority.⁵¹

Meanwhile, the common Nordic electricity market Nord Pool has a significant role to play in Finnish energy security, especially from the point of view of supply. This flexibility may become increasingly important as the role of solar and wind power and other intermittent sources of power generation rises. However, the Nordic countries could cooperate further to facilitate their mutual energy transition; moreover, “in the future the

Baltic states might also be more closely integrated with the Nordics,” but the terms of and opportunities for such integration remain ambiguous.⁵²

Finnish energy cooperation with the Baltic countries has been relatively low. In recent years, one major development has been the Balticconnector gas pipeline, which has been constructed between Estonia and Finland, providing an alternative to gas sourced directly from Russia. Effectively, this means that the Finnish gas market is now opened, providing immediate opportunities for new operators and, in the long run, perhaps increasing the

Russia has traditionally been an important source of oil and (especially) gas imports; in this sense a transition to sustainable energy gives Finland a chance to increase its independence and reduce Russian influence

chance to increase its independence and reduce Russian influence.⁴⁷ However, the impacts that could follow from a shift in Russia’s geopolitical position due to a decline in global fossil fuel demand have not yet been analysed in great detail in Finland.⁴⁸ Meanwhile, public debate has also highlighted increasing Russian interest in Finnish nuclear power, which is a major non-fossil electricity source for the country.⁴⁹ The Finnish Security Intelligence Service (SUPO) has

⁴⁴ Hannele Muilu, “[Eukalyptuspuuta Brasiliasta Tukholmaan, pähkinäkuoria Afrikasta Suomeen – tähänkö kivihilestä luopuminen johtaa?](#)” [Eucalyptus wood from Brazil to Stockholm, nutshells from Africa to Finland – is this the abandonment of coal?], Yle, 18 March 2019.

⁴⁵ Tomi J. Lindroos, Antti Lehtilä, Tiina Koljonen, Anders Kofoed-Wiuff, János Hethey, Nina Dupont and Aisma Vitiņa, [Baltic Energy Technology Scenarios 2018](#) (Copenhagen: Nordic Council of Ministers, 2018).

⁴⁶ Tere Vadén, Antti Majava, Tero Toivanen, Paavo Järvensivu, Emma Hakala, and Jussi T. Eronen, “To continue to burn something? Technological, economic and political path T dependencies in district heating in Helsinki, Finland,” *Energy Research & Social Science* 58, 2019.

⁴⁷ O. Sipilä, S. Lyyra, N. Semkin, J. Patronen, E. Kaura, E. Sipilä, J. Kopra, V.-P. Tynkkynen, K. Pynnöniemi and S. Höysniemi, *Energia, huoltovarmuus ja geopoliittiset siirtymät* [Energy, security of supply and geopolitical transitions] (Helsinki: Government Reports and Research Publication Series 79, 2017).

⁴⁸ Emma Hakala, Ville Lähde, Antti Majava, Tero Toivanen, Tere Vadén, Paavo Järvensivu and Jussi T. Eronen, “A Lot of Talk, But Little Action—The Blind Spots of Nordic Environmental Security Policy,” *Sustainability* 1(8): 2379, April 2019.

⁴⁹ J. J. Jääskeläinen, S. H. Höysniemi, S. Syri and V.-P. Tynkkynen, “Finland’s Dependence on Russian Energy—Mutually Beneficial Trade Relations or an Energy Security Threat?,” *Sustainability*, 10(10): 3445, 2018.

⁵⁰ Eduskunta (Parliament of Finland), “[Lausunto vastauksena hallintovaliokunnan lausuntopyyntöön VNS 6/2016 ja VNS 5/2016](#)” [Opinion in response to the request for an opinion of the Management Committee VNS 6/2016 and VNS 5/2016], Statement by the Finnish Security Intelligence Service, Dnro 343/2016, 27 September 2016.

⁵¹ “Inclusive and competent Finland,” Government of Finland.

⁵² Nordic West Office, [Stronger together: The future of the Nordic Energy Markets](#) (Nordic West Office, 2019).

utilisation of liquefied natural gas (LNG) and biogas.⁵³ However, as gas only constitutes about 6-8% of total energy consumption in Finland, this will not dramatically impact Finnish energy security, nor lead to total independence.⁵⁴ In Finnish discussion, the recent development has thus far not led to any concrete plans for further gas sector integration with the Baltic countries.⁵⁵ However, energy security is a top priority for the EU, and the Energy Union may offer incentives for joint investments between Finland and the Baltic countries in the future. In the past, this has also created competition, as Finland and Estonia both sought the same EU financing to construct a regional LNG terminal. However, compromise was possible; indeed, their eventual decision to divide the project into two terminals—one in each country—is what gave rise to the Balticconnector pipeline linking the two.⁵⁶ The compromise suggests that Finland and the Baltic countries may also be able to find cooperative and mutually beneficial solutions in the future as well.

Overall, Finnish energy security is relatively comprehensively covered by the country's wider security of supply policy, which aims to safeguard critical production, services and infrastructure for a functioning society.⁵⁷ However, the policy has so far not adequately reflected the magnitude of the changes necessary to implement energy transition and mitigate climate change. The necessary structural changes in Finnish production and consumption as well as potential geopolitical shifts in the surrounding world need to be

identified and taken into account in the security of supply outlook.⁵⁸

There still is a need for rapid and significant change in both climate and energy policy if Finland is to make the move towards globally sustainable development patterns. While the

While Finland is in many ways well equipped to carry out its energy transition, and while the current government has adopted ambitious climate targets, many questions still remain concerning the implementation of its initiatives

country is in many ways well equipped to carry out its energy transition, and while the current government has adopted ambitious climate targets, many questions still remain concerning the implementation of its initiatives. In the coming years, both determination and careful consideration will be necessary if Finland is to craft sustainable, fair and effective energy and climate policies.

3. LITHUANIA

3.1. PRESIDENTIAL ELECTION CAMPAIGN

In Lithuania, the directly elected president not only has important constitutional powers such as directing together with the government, national security and foreign policy—but also occasionally holds broader informal political influence. The latter was strengthened during Dalia Grybauskaitė's two terms in office (2009-2019). After an election, the president approves the new composition of a government and can influence the selection of particular ministers. For example, President Grybauskaitė took an active part in the nomination of energy ministers on two occasions—first after her re-election in 2014, and later after the 2016 parliamentary campaign. Thus, the minister of energy (like the ministers of defence and foreign affairs) has informally become a kind of

⁵³ Kaja Kunnas, "[Suomi irrottautuu riippuvuudestaan Venäjän kaasusta – Putken Inkoosta Viron Paldiskiin on tarkoitus olla valmis kahden vuoden kuluttua](#)" [Finland relieves its dependence on Russian gas – Pipeline from Inkoo to Paldiski, Estonia, to be ready in two years], *Helsingin Sanomat*, 2 November 2018.

⁵⁴ "[Total energy consumption fell by 7 per cent in January to June](#)," Statistics Finland, press release, 26 September 2019.

⁵⁵ Emma Hakala, Harri Mikkola, Juha Käpylä, Matti Pesu and Mika Aaltola, [Suomen huoltovarmuus ja Baltian alue: Tiivistyvät yhteydet muuttuvassa turvallisuusympäristössä](#) [Finland's security of supply and the Baltic region: Closer connections in a changing security environment] (Helsinki: FIIA, 2019).

⁵⁶ "[Finland and Estonia confirm LNG terminal](#)," Yle, 18 November 2014.

⁵⁷ Government of Finland, "[Government decision on the security of supply goals](#)," Government decision 1048/2018, 5 December 2018.

⁵⁸ Emma Hakala, "[Voisiko huoltovarmuus auttaa ilmastonmuutokseen varautumisessa?](#)" [Could security of supply help in preparing for climate change?], WISE Project blog, 11 October 2019.

‘presidential minister.’ President Grybauskaitė also personally paid great attention to the energy sector: for example, the floating LNG terminal in Klaipėda port was known as ‘Grybauskaitė’s project’ thanks to her persistent political support (and prodding of the government’s ministers as well as civil servants). Accordingly, a change in president can have a significant impact on Lithuania’s energy policy priorities.

power plant instead of a nuclear facility.⁶⁰ However, this idea was not only ignored by Minsk, but became an object of some mockery in Lithuania. For his part, Gitanas Nausėda called for an effort to convince Lithuania’s neighbours that Astravyets is unsafe and poses a threat to them as well, while at the same time acknowledging that contacts with Belarus should remain open. Ingrida Šimonytė emphasised that Lithuania needs to ensure that electricity from the plant does not enter the Lithuanian and EU market, suggesting that this be done by creating a coalition of several like-minded countries.

Neither the presidential election nor the cabinet reshuffle later that year led to any significant changes to Lithuania’s energy or climate policy

However, during the most recent presidential campaign in 2019, energy security and climate policy topics were side-lined. The main areas of interest for the candidates and voters were economic and social questions, foreign policy issues and distribution of domestic political powers. The only topic related to energy security and environment to emerge during the debates was Lithuania’s potential response to the **Astravyets NPP** (also known by its Russian name Ostrovets) now under construction in Belarus. All three of the most popular candidates—Gitanas Nausėda (independent), Ingrida Šimonytė (Homeland Union-Lithuania’s Christian Democrats, TS-LKD), and Saulius Skvernelis (Lithuanian Farmers and Greens Union, LVŽS)—acknowledged the potential threat of Astravyets and pointed to alleged mistakes made both by President Grybauskaitė and by previous governments.

Saulius Skvernelis, who has also served as Lithuania’s Prime Minister since 2016, declared during the presidential campaign that his government would “ensure and do everything possible to prevent this plant from becoming operational.”⁵⁹ He had even sent a letter to the Belarusian authorities proposing that they consider the development of a modern gas

Synchronisation of the electricity grid with continental Europe was occasionally

mentioned during the presidential campaign, albeit mostly in relation to the Astravyets question. For example, Saulius Skvernelis observed that desynchronisation is the best way to stop Belarusian electricity from entering the Lithuanian (and Baltic) electricity market.

The relatively low political profile of energy, environment and climate policy issues is not unexpected. Lithuanian society pays little attention to these topics

Climate policy was almost a non-issue during the campaign. Only when answering specific questions did Gitanas Nausėda mention recent EU initiatives to address climate change. He declared that “the initiative by the President Macron to create a European climate bank can be considered and welcomed.” He also called on Lithuania to set an ambitious goal: obtaining 100% of energy consumption from renewables.⁶¹

The relatively low political profile of energy, environment and climate policy issues is not unexpected. Lithuanian society pays little attention to these topics. A June 2019 Eurobarometer survey indicated that only 4% of

⁵⁹ “Pirmuoju apklausų lyderių debatuose – aštri kritika ir nepatogūs klausimai” [Poll leaders’ first debate: Fierce criticism and uncomfortable questions], Lrt.lt, 8 April 2019.

⁶⁰ “Prime Minister puts forward a proposal to Belarus regarding an alternative to Astravets NPP,” Office of the Government of Lithuania, 7 March 2019.

⁶¹ Lauryna Vyrelionaitė, “Savaitės klausimas kandidatams: klimato kaita – ką daryti Lietuvai?” [Question of the week for candidates: Climate change - what to do in Lithuania?], 15min.lt, 20 May 2019.

Lithuanians cited "environmental, climate and energy issues" as among the most important for their country at the moment—compared to an EU average of 20%.⁶² On the other hand, Lithuanians are aware that climate change is among the most important issues faced by the EU as a whole (22% mentioned the topic—the same figure as the EU average).

Neither the presidential election—which Gitanas Nausėda won after the second round of balloting in May 2019—nor the cabinet reshuffle later that year (which brought some minor new parties into the governing coalition)—led to any significant changes to

The National Energy Independence Strategy of 2018 finally abandons the long-time goal of restoring nuclear generating capacity to Lithuania, instead focusing on the development of renewable energy sources

Lithuania's energy or climate policy. The existing government programme (dating to 2016) was not even updated; Žygimantas Vaičiūnas remained in position as energy minister, tasked with further implementation of the energy strategy from 2018.

The National Energy Independence Strategy of 2018 finally abandons the long-time goal of restoring nuclear generating capacity to Lithuania, instead focusing on the development of RES. It establishes some ambitious energy security and climate targets: first, to gradually replace electricity import with local electricity generation (in 2030, according to this plan, domestic electricity generation should account for 70% of final consumption, rising to 100% by 2050). Second, it sets the goal of having 80% of the country's energy needs generated from non-polluting (zero-emission sources, both of greenhouse gases and of air pollutants) by 2050.⁶³ Currently, electricity imports represent about 70-80% of all domestic needs; due to

inefficient and costly traditional power plants, however, domestic generation does now come only from renewables (mainly wind).

At the moment, Minister of Energy Vaičiūnas is the leading figure in Lithuanian energy and climate change policy. Despite being an independent, he enjoys full trust of Prime Minister Skvernelis; the summer 2019 cabinet reshuffle did not affect his position. While Prime Minister Skvernelis and then-President Grybauskaitė closely monitored (and actively engaged in) bilateral and EU negotiations on synchronisation, the Ministry of Energy is by far the main player on the energy agenda. Even climate policy issues lie more within the scope of the Ministry of Energy than the Ministry of Environment (moreover, Vaičiūnas also served as acting Minister of Environment for four months in 2018-2019).⁶⁴ While the Lithuanian Parliament (Seimas) does not possess any significant political influence in shaping energy and climate policy, its committees do occasionally organise public hearings on some of the more pressing issues.

3.2. PRIORITIES OF THE NEW PRESIDENT

President Gitanas Nausėda seems to be taking the topics of energy and climate change seriously. He established a new, separate environment and infrastructure group of advisors that coordinate energy, environmental and transport issues. Former energy minister Jaroslav Neverovič (Jarosław Niewierowicz) was appointed as the head of this group, which is also comprised of some senior officials on secondment from the energy as well as transport ministries.

President Nausėda made his first international appearance on the topic of climate change in September 2019 at the Climate Action

⁶² European Commission, [Standard Eurobarometer 91](#) (Brussels: European Commission, Spring 2019).

⁶³ Seimas (Parliament of Lithuania), [The National Energy Independence Strategy of the Republic of Lithuania](#) (Vilnius: Ministry of the Environment, 2018).

⁶⁴ The government is currently considering merging the Ministry of Energy and Ministry of Economy and Innovation as well as transferring some of the functions of the Ministry of Environment into a new entity that would be known as the Ministry for Sustainable Economy, Energy and Climate. Birutė Davidonytė, "[Ministerijų jungimo planas: bus Darnios ekonomikos, energetikos ir klimato ministerija](#)" [Ministries merger plan: there will be a Ministry of Sustainable Economy, Energy and Climate], 15min.lt, 19 March 2020.

Summit—one of the key high-level events of the 74th Session of the UN General Assembly. As Neverovič explained in an interview for this report, the Lithuanian president's appearance at this summit as a speaker was the head of state's own initiative, and was achieved only after some diplomatic effort. The president introduced Lithuania's **Transition to Sustainable Heating Global Initiative** aimed at reducing the use of fossil fuels in centralised district heating and at delivering carbon neutrality. This initiative has already been supported by Austria, Georgia, Latvia, Sweden and Ukraine. As President Nausėda observed, "[i]n Lithuania, the share of biomass in residential district heating has increased from

present governing coalition in Lithuania seems to be unable to reach consensus with the opposition on many long-term strategic issues. The agreement would include some major targets on reducing CO₂ emissions and transitioning to renewables. Neverovič confirmed that President Nausėda is keen on Lithuania joining the other EU nations that seek to become carbon neutral by 2050; however, he also explained that the president does not want to make such a commitment before the government makes the necessary decisions.

As for other priorities, the presidential advisor pointed to the **synchronisation issue**. According to Neverovič, President Nausėda intends to accelerate the process leading up to the final synchronisation with continental Europe—and to set a target of 2024 instead of the current date of 2025. However, he struggled to explain how this would be realistic, bearing in mind the complexity of this process and the involvement of other

countries (Estonia, Latvia and Poland). As Minister of Energy Vaičiūnas made it clear in the interview for this report, it would be almost impossible to build the Harmony Link between Lithuania and Poland—a crucial element in the synchronisation project—any faster. (Harmony Link is a new Polish-Lithuanian submarine high-voltage direct current, or HVDC, cable project, adopted in 2018 as a compromise with Poland, which strongly opposed the Lithuanian original proposal of a second high-voltage alternating current (HVAC) overland electricity connection between the two countries.) According to experts, an additional electricity connection between Lithuania and Poland is an essential element of the synchronisation process due to security and stability reasons. The estimated cost of Harmony Link is about €650-700 million; it is anticipated that the European Commission will provide 75 percent of the funding. However, in a private conversation, a representative from the Lithuanian TSO Litgrid noted that, according to information received from the Polish side, this undersea cable may actually become fully operational only in 2027.

One of the main tasks of President Nausėda is forging a new National Agreement on Climate Policy. However, the launch of this agreement was postponed perhaps until after a new government is formed following the next parliamentary elections in autumn 2020

30 to 70 percent over the last five years, while at the same time the average heating prices have fallen by 30 to 40 percent."⁶⁵ This has been emphasised by the president as one of Lithuania's most impressive achievements for transition to sustainable environment. The new president also declared that Lithuania fully supports a transition to renewables and urged energy consumers to become energy prosumers, that is, consumers who generate energy for their own needs

One of the main tasks of President Nausėda, as his advisors stress, is forging a new **National Agreement on Climate Policy** that could be announced in 2020. The initial idea was to link it to the public presentation of the National Integrated Energy and Climate Plan presented to the European Commission in the end of 2019. However, according to some other sources, the launch of this agreement, was postponed perhaps until after a new government is formed following the next parliamentary elections in autumn 2020, as the

⁶⁵ "The President introduced Lithuania's new global initiative at the UN Climate Action Summit," Office of the President of Lithuania, President's Communication Group, 30 September 2019.

Some suggestions to further **decrease the maintenance cost of the Klaipėda LNG terminal** is also on the president's agenda. Neverovič explained that it would be wise to seek long-term contracts now—with natural gas prices at record lows—as well as to take over some operational functions of the terminal from the current Norwegian operator company, Hoegh LNG.

President Nausėda has already joined the Lithuanian government in attempts to gain support from other EU members for **boycotting the import of electricity from Astravyets**. Meeting with the Latvian President Egils Levits in Vilnius (on 3 October 2019), President Nausėda gave special attention to the safety of the Astravyets project (according to Neverovič, the Lithuanian president made a half-hour presentation to his colleague on this issue). The president's advisory team is preparing draft legislation aimed at revoking the licences of companies involved in electricity deals with Belarus after the Astravyets NPP launch.

3.3. THE GOVERNMENT'S AGENDA

Energy and climate policy in general is not a top priority for the current government. Except for the Astravyets NPP issue, all other questions are discussed primarily in small 'bubbles' of experts, or in specific businesses and government institutions. A short-lasting political discussion did begin after a 2019 proposal to introduce **a new pollution tax on vehicles**. However, the poorly-articulated proposal was rejected by the Seimas on the first reading. As far as the Lithuanian public is concerned, there are no pressing concerns about energy and climate change issues. That said, however, there is growing concern among governmental institutions and experts that Lithuania's energy transition is unbalanced: its rapid move towards renewable sources of electricity generation has not been matched by commensurate progress in such sectors as agriculture or transport—while much remains to be done in increasing energy efficiency.

In June 2019, the European Commission issued recommendations to Lithuania about the actions it should take in order to meet EU goals on climate change and energy policy. Its main recommendations included:

- Continuing to refine the national energy strategy in order to achieve 2030 greenhouse gas reduction targets for sectors not covered by the ETS. As the most problematic sectors in Lithuania are transport and agriculture, the Commission suggests that Lithuania specify its planned policy measures in a more detailed way;
- While welcoming Lithuania's ambition to achieve a 45% share of renewable energy in its energy mix by 2030, the Commission recommends basing this goal on comprehensive and quantifiable policies and measures that comply with the obligations set out in Directive (EU) 2018/20018 of the European Parliament and European Council;
- Significantly raising Lithuania's ambition to reduce final and primary energy consumption by 2030, while proposing more ambitious policies and measures to save even more energy in order to meet the EU's 2030 energy efficiency target;

Energy and climate policy in general is not a top priority for the current Lithuanian government. Except for the Astravyets NPP issue, all other questions are discussed primarily in small 'bubbles' of experts, or in specific businesses and government institutions

- Identifying measures that will contribute to energy security objectives, including diversifying energy import sources while reducing energy dependency.⁶⁶

⁶⁶ European Commission, "Assessment of the draft National Energy and Climate Plan of Lithuania", SWD(2019) 228 final, June 18, 2019.

These recommendations were advanced at an inopportune time—during the above-mentioned reconfiguration of the governing coalition that followed the presidential elections. In this context, especially given that the president-elect had yet to be sworn in, hardly anyone outside the Ministry of Energy even took note of these recommendations, let alone used them as an opportunity to enhance public discussion on energy and climate issues. The reshuffled government largely continued its previous policies in the absence of significant internal pressure to do otherwise.

3.3.1. ASTRAVYETS

In July 2017, the Seimas passed a law prohibiting the purchase of electricity from unsafe third-country nuclear power plants.⁶⁷ This is the main legal framework for Lithuania's current position towards the Astravyets project. While Poland has also decided not to buy electricity from Belarus, Minsk officially sees no problems with the Lithuanian legislation; it hopes that electricity from the plant will reach the Nord Pool market through Latvia.⁶⁸ As soon as Lithuania stopped its electricity trade with Belarus, the Latvian transmission system operator AST announced its intent to continue providing access to electricity from third countries. Former Lithuanian energy minister Arvydas Sekmokas argued in an interview for this report that if purchases are made by the Latvians, electricity from Astravyets will technically flow through Lithuania.

Lithuania is pursuing a two-track policy in trying to avoid potential manipulation of the electricity trade with Belarus. First, President Nausėda has prepared draft legislation enabling the government to suspend licenses of electricity traders involved in imports from Belarus, as noted above. Second, the Ministry

of Energy continues to seeking a formal reaction from the EU.

In May 2019, Lithuania formally called on the European Commission to ensure the implementation of the recommendations of the

Lithuania formally called on the European Commission to ensure the implementation of the recommendations of the Astravyets NPP stress test

Astravyets NPP stress test. In a meeting with Maroš Šefčovič (then Commission Vice President responsible for the Energy Union), Minister of Energy Vaičiūnas delivered a formal letter urging the EU and its institutions to take a principled stance requiring Belarus immediately to develop an action plan for implementing the stress test recommendations, while also developing a comprehensive EU action plan for the Astravyets project as a whole. As Vaičiūnas declared after the meeting:

Thanks to the [Commission's] involvement, Belarus has succeeded in conducting the stress test according to EU methodology. Now, a strong Commission leadership and principled position are needed to ensure that Belarus does not start the operation of the Astravyets NPP until the stress test recommendations are implemented. Otherwise, the entire Astravyets NPP's stress test procedure will have been meaningless—a mere simulated effort without any result. It is a question of the security of EU citizens; there can be no compromise on this issue.⁶⁹

At the same time, Lithuanian politicians continued blaming each other for allowing the building of the Astravyets NPP in the first place. The opposition TS-LKD, for instance, accused Minister of Foreign Affairs Linas Linkevičius (and indirectly, President Nausėda) for trying to find a dialogue with Belarus at the cost of softening Lithuania's position on the Astravyets project.

⁶⁷ Seimas (Parliament of Lithuania), "[Law on Recognition of the Nuclear Power Plant under Construction in the Ostrovets District in the Republic of Belarus as Unsafe and Posing a Threat to the National Security of the Republic of Lithuania, Its Environment and Public Health](#)," No XIII-451, 15 June 2017.

⁶⁸ "Z. Vaičiūnas: Baltarusijos veiksmų planas rodo, kad Astravo AE turėtų būti paleista ne anksčiau kaip 2025 metais" [Belarusian action plan indicates that the Astravyets NPP should be commissioned by 2025 at the earliest], *Lrytas.lt*, 23 August 2019.

⁶⁹ "Lietuva oficialiai kreipėsi į Europos Komisiją reikalaudama užtikrinti Astravo AE streso testo rekomendacijų įgyvendinimą" [Lithuania officially appealed to the European Commission to ensure the implementation of the recommendations of the Astravyets NPP stress test], Ministry of Energy of Lithuania, press release, 3 May 2019.

3.3.2. ELECTRICITY SYNCHRONISATION

Lithuania's government has repeatedly declared that the synchronisation project has moved from the political to the technical stage and is irreversible. In March 2019 in Brussels, the heads of the Baltic electricity transmission system operators as well as the head of the EU's Executive Agency for Innovation and Network Programmes signed a financing agreement in which the Commission will allocate €324 million in Connecting Europe Facility (CEF) funding to the three Baltic states. This includes €125.2 million (three-quarters of the required amount) for the renewal and strengthening of the Lithuanian electricity system.

In April 2019, the government approved the draft Law on the Interconnection of the Lithuanian Electricity System with the

Progress continued in July, when the Ministry of Energy released its plan to carry out synchronisation measures. According to the ministry, one essential task is the installation of synchronous compensators in transmission networks. This will be implemented in two stages, with the first to be completed by the end of 2022 and the second by the end of 2024. During the second phase, Lithuania will also have to implement frequency system stability assessment and install automatic generation control tools.⁷¹ The plan was approved by the government in September 2019.

Despite these regular steps forward, public discussion on synchronisation is rather minimal; only some technical press releases and information sheets appear in the media. In principle, this supports the government's contention that the synchronisation process is becoming a technical one.

Lithuania's government has repeatedly declared that the synchronisation project has moved from the political to the technical stage and is irreversible. However, risks associated with the project still exist—both domestic and international

However, as Minister of Energy Vaičiūnas argued, risks associated with synchronisation project still exist—both domestic and international. Domestically, there are political pressures (especially from the opposition TS-LKD) to ensure that electricity from

Continental European Networks, along with related legal acts. Passed by the Seimas in June, these laws provide the basic conditions for organising and implementing the synchronisation process.

The next month, the Continental Europe Regional Group of the European Network of Transmission System Operators for Electricity (ENTSO-E) announced that the relevant TSOs had signed a Connection Agreement. This is a 409-point set of technical and practical standards and indicators of operation that will enable Estonia, Latvia and Lithuania to connect and operate on the same frequency as the Continental European power grid. At present, the Lithuanian power system meets around 40 percent (169) of these standards, with similar figures for Latvia and Estonia.⁷⁰

Astravyets does not enter the Lithuanian electricity market. Some politicians are even questioning the above-mentioned technical efforts to strengthen the electricity grid in northern Lithuania. For the moment, Lithuania remains part of the BRELL ring with Belarus and Russia; its TSO, Litgrid, is responsible for ensuring the safe transmission of power. However, after the parliamentary elections this year, a new government might be willing to revise the already-approved plans to strengthen the transmission system as means to block Belarusian exports to Latvia, thereby delaying the desynchronisation process. Even without political interference, there could be technical or bureaucratic delays (associated, for example, with public procurement) that could push the 2025 target date of Baltic synchronisation with the Continental European system further back.

⁷⁰ "Isigalioja svarbi prisijungimo prie Europos elektros tinklų sutartis" [Important agreement on the connection to the European electricity networks enters into force], Ministry of Energy of Lithuania, press release, 29 May 2019.

⁷¹ "Ministerija parengė sinchronizavimo priemonių planą" [The Ministry has prepared a plan for synchronisation measures], 15min.lt/BNS, 31 July 2019.

Another issue is related to the process of desynchronisation from the BRELL system. So far, there are no clear technical conditions or requirements on how the desynchronisation should look like. Lithuania hopes that these

biggest contributors to the national budget. Accordingly, the Lithuanian government is now looking for ways to reduce the 'security taxes' paid by Achema and other LNG customers.

Even without political interference, there could be technical or bureaucratic delays that could push the 2025 target date of Baltic synchronisation with the Continental European system further back

conditions will be purely technical in nature, but there is a risk that some political demands from Russia and Belarus could also be included.

3.3.3. LNG TERMINAL

One of the most challenging issues for Lithuania's energy sector is the high ongoing maintenance and operational costs of Klaipėda LNG terminal. Currently, the annual maintenance cost is about €63 million, including interest payments. The main consumer of this gas is currently the fertiliser producer Achema, which in 2018 obtained about 63% of the gas imported via the facility. Achema is thus paying the largest share of the so-called 'security tax' on the gas price—about €20 million euros per year. However, the very continued existence of the company has recently been called into question. The company's financial losses were about €28 million in 2018—due not only to the

In December 2018, the Seimas approved the government's proposal to purchase the LNG terminal in order to optimise maintenance costs between 2020 and 2044.⁷² This decision also means that the LNG terminal will continue its operation after 2024, the date when its initial 10-year lease was slated to end. Later, in May 2019, the terminal's operator Klaipėdos Nafta received permission from the European Commission to reduce costs of terminal maintenance for consumers. Borrowing from banks and spreading the terminal's maintenance costs over 25 years should reduce yearly maintenance expenditures by 40% (some €23-25 million).⁷³ However,

One of the most challenging issues for Lithuania's energy sector is the high ongoing maintenance and operational costs of Klaipėda LNG terminal

critics argue that this decision will only postpone the payment of maintenance costs to a future time—at which there is no guarantee of stable gas demand.

The paradox is that the LNG terminal does not facilitate operation of Lithuanian gas-fired power plants even in the current period of low gas prices. Due to the high terminal maintenance costs, the country's gas-fired power plants avoid purchasing LNG, as they would then have to pay the 'security tax', increasing the price of electricity.

Therefore, the 9th block of the Elektrėnai power plant is not operating, even though Lithuania has invested hundreds of millions of

The paradox is that the LNG terminal does not facilitate operation of Lithuanian gas-fired power plants even in the current period of low gas prices

higher gas prices it pays, but also the increasing cost of CO₂ emission allowances under the EU ETS. If Achema entered bankruptcy or closed, the LNG terminal thus would suffer dramatically. Moreover, a hypothetical closure of the company could have significant social and economic impact; at its main fertiliser plant alone, Achema employs about 1,300 people. Several hundred more work for other parts of the Achema business group, which is among the

⁷² Seimas (Parliament of Lithuania), "[Lietuvos Respublikos suskystintų gamtinių dujų terminalo įstatymo Nr. XI-2053 5 ir 9 straipsnių pakeitimo įstatymas](#)" [Law Amending Articles 5 and 9 of the Law No. XI-2053 on Liquefied Natural Gas Terminal], No XIII-1786, 18 December 2018.

⁷³ Vytautas Budzinauskas, "["Klaipėdos nafta" tikisi nuo liepos sumažinti SGD terminalo išlaikymo kaštus](#)" [Klaipėdos Nafta expects to reduce maintenance costs of the LNG terminal from July], Delfi.lt /BNS, 15 May 2019.

euro in its modernisation. On the other hand, Latvia buys gas from the Lithuanian LNG terminal, evades the 'security tax' (which applies to domestic consumers only), produces electricity in gas-fired power plants and sells it to Lithuania. During 2018, 80% of Lithuanian electricity demand was met by imports.

Lithuania is still negotiating the specific conditions for joining the common Baltic-Finnish gas market. Lithuanian gas transmission system operator Amber Grid argues that Lithuania is not abandoning its plans to enter the regional market—which remains a strategic goal—but wants this to be done on mutually beneficial terms. It seems that the LNG terminal is the largest obstacle to market entry. According to the principle of a common market, consumers pay the same price for gas inside the market regardless of its entry point. Lithuania has the most gas entry points of the three Baltic states; in addition to the terminal, it is connected by pipeline to Belarus, and soon (starting potentially in 2022) to Poland. In April 2019, Lithuania proposed three principles: zero tax at the interconnection point between Latvia and Lithuania, the same price at the entry point with Belarus that Latvia, Estonia and Finland have at their entry points, and a 75% discount at the Klaipėda terminal entry point.⁷⁴ In other words, Lithuania still wants to keep some trading margin for imported LNG via the terminal—something it will likely continue to insist on until a way to manage the LNG terminal's maintenance costs is found.

3.3.4. PROSUMERS AND RENEWABLE ELECTRICITY AUCTIONS

In April 2019, the Ministry of Energy decided to provide financial support for installations of small solar power plants (up to 10 kilowatts [kW]) to individual homeowners who want to generate electricity for their own needs. The total cost of this subsidy—which gives individuals €323 per kilowatt of power—was estimated at around €4.5 million for the

remainder of last year; there is also a plan to invest more than €16 million euro of EU funds in solar power by 2023.⁷⁵ This decision is a part of a broader programme to increase the number of prosumers. According to Minister of Energy Vaičiūnas, this has been rapidly increasing: from 9,000 in 2018 to 20,000 by September 2019.

A new model for renewable energy development also made its debut in Lithuania in 2019, according to which state support for renewable power plants will be distributed through technology-neutral auctions. (The previous renewable electricity production auctions were held in 2015). In April 2019, the European Commission announced its approval of this state support programme, which has a total budget of €385 million over the 12-year period established by EU guidelines. As highlighted above, Lithuania is seeking to increase the share of renewable energy in its electricity balance to 45% by 2030.

A new model for renewable energy development also made its debut in Lithuania 2019, according to which state support for renewable power plants will be distributed through technology-neutral auctions

The first auction took place in September 2019 and resulted in a pledge by the winner to provide 0.3TWh of new, state-supported renewable energy production capacity. The producer will receive a premium over the market price—in September 2019, this was €3.86 per megawatt-hour (MWh) (as it was the case for the first auction). However, the maximum price for electricity from renewable sources should be no higher than €48.93/MWh.⁷⁶ The programme continues to enjoy strong political support; the national regulatory authority is planning to organise three more such auctions this year.

⁷⁴ Vytautas Budzinauskas, Roma Pakėnienė, "[Lietuva tęsia derybas dėl prisijungimo prie bendros dujų rinkos](#)" [Lithuania continues negotiations on joining the single gas market], Lrt.lt/BNS, 8 April 2019.

⁷⁵ Gintarė Rovaitė, "[Norinties įsirengti saulės elektrines gyventojams – 4,5 mln. Eur paramos](#)" [For the population wishing to install solar power plants – €4.5 million in support], *Verslo žinios*, 19 April 2019.

⁷⁶ "[Technologiškai neutralus elektros energijos iš atsinaujinančių išteklių aukcionas](#)" [Technologically-neutral auction for renewable electricity sources], National Energy Regulatory Council of Lithuania, 30 May 2019, last updated 17 January 2020.

3.4. INTERNATIONAL COOPERATION AND DOMESTIC RISKS

The key issue regarding regional cooperation for Lithuania at the moment is finding a common position with Latvia and Estonia on boycotting Belarusian electricity imports after the Astravyets NPP comes online. Announcements from Latvia that it would buy Belarusian or Russian electricity even after Lithuania stopped trading with Belarus were seen quite negatively in Vilnius. However, there are many technical and commercial questions about whether Latvia could

successfully finding a compromise on synchronisation options in 2018, the two countries have no energy disputes at the moment. Lithuania appreciates Poland's decision not to buy electricity from Belarus in the future, while the two countries continue to work to complete the Gas Interconnector Poland-Lithuania (GIPL) pipeline as soon as possible.

In 2019, Lithuania forged credible ties with the leadership of the US Department of Energy. The second meeting of the Partnership for Transatlantic Energy Cooperation (P-TEC) brought high-level delegations from the US (including then-Secretary of Energy Rick Perry) and the EU to Vilnius in October 2019. The event followed on the first P-TEC forum, which attracted a great deal of attention at its Houston launch in March of that year. Minister of Energy Vaičiūnas subsequently devoted considerable effort to bring the second forum to Vilnius—resulting in the signing of a joint declaration between Secretary Perry and his ministerial counterparts from the Baltic states. The declaration acknowledges "a critical moment for the Baltic states in strengthening the cybersecurity in strategic Baltic energy infrastructure" and describes the "crucial role that the US could play in assisting the Baltic states with strategic and technical support."⁷⁷

The key issue regarding regional cooperation for Lithuania at the moment is finding a common position with Latvia and Estonia on boycotting Belarusian electricity imports after the Astravyets NPP comes online

implement its intentions in practice, especially given the above-mentioned Lithuanian law forbidding market traders from importing electricity generated in unsafe power plants.

Another cooperation issue is related to synchronisation project. Baltic electricity TSOs have postponed an isolated operation test of the Baltic power system that was previously scheduled for June 2019; no clear date for the rescheduled test has yet been announced. An isolated operation test is a required step in the preparation to disconnect from the BRELL system and synchronise with the Continental Europe electricity grid. While Litgrid carried out its own test in May 2019, the postponement of the Baltic test has raised suspicions in Vilnius that the synchronisation project may be experiencing unannounced other problems.

Despite potential difficulties with Lithuania's Baltic neighbours, cooperation with Poland on electricity issues—and in energy more broadly—continues to increase. After

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After the event, Vaičiūnas stressed that Lithuania values the possibility of import LNG from the US at a competitive price; LNG cargoes from the United States have already been delivered twice to the Klaipėda terminal. However, the US representatives were very cautious in expressing support for Lithuania's position regarding the safety of the Astravyets NPP. When asked about the topic, Secretary Perry suggested only that Lithuania must

⁷⁷ Vaidotas Beniušis, Jūratė Skėrytė, "US to help protect Baltic energy infrastructure from cyber attacks," Lrt.lt/BNS, 7 October 2019.

continue dialogue with the International Atomic Energy Agency (IAEA) and Belarus, adding that the US will stay out of talks on the issue.⁷⁸

The implementation of strategic energy projects and the national energy strategy may suffer from Lithuania's current lack of political stability. The government still has a very fragile majority in the parliament and cannot always be sure that its draft laws will be approved—as happened with its abortive effort to introduce a pollution tax on cars in October 2019. The government's defeat means that even modest progress at reducing emissions from the transport sector is unlikely in the near future, raising the prospect of fines from the European Commission if Lithuania is unable to meet its greenhouse gas reduction targets.

The implementation of strategic energy projects and the national energy strategy may suffer from Lithuania's current lack of political stability. The government still has a very fragile majority in the parliament and cannot always be sure that its draft laws will be approved

As the country is about to enter a new political cycle this summer in advance of parliamentary elections scheduled for October 2020, the primary focus of the election campaign is likely to be the government's record of managing the coronavirus pandemic and its severe economic fallout. Energy and climate policies—beyond the already existing themes covered in this chapter—are unlikely to emerge as major political agenda items around which battles for votes will concentrate. Unless the energy transition takes a very prominent seat in the EU's post-pandemic recovery programme—and thus draws greater political interest from the political parties and pressure groups in how better to capitalise on it—Lithuania's domestic political competition is not about to become a major driver of further change in the country's energy and climate policy directions and ambitions.

⁷⁸ "US Energy Secretary: Lithuanians must talk to IAEA and Belarus about N-plant, US stays out", Delfi.lt/BNS, 7 October 2019.

4. LATVIA

4.1. LATVIA'S ENERGY SECTOR IN 2019

Latvia's energy sector reached its 2020 target of obtaining 40% of its electricity production from the renewable sources in 2018—two years ahead of schedule.⁷⁹ Hydropower has traditionally constituted the most significant renewable energy source for electricity production (2.4 terawatt-hours, or TWh, in 2018, compared to 3.1 TWh in 2008, but electricity production from biofuels grew from just 44 gigawatt-hours (GWh) in 2008 to 944 GWh in 2010—while growth in the use of biofuels and biogas in heat generation was even more impressive, rising from 4,233 terajoules (TJ) in 2008 to 13,854 TJ in 2018.⁸⁰ Visible progress has been slower in the utilisation of solar and wind power; electricity production from wind has doubled since 2008 to a still modest but already important 122 GWh.⁸¹ On the other hand, in the total primary energy supply, petroleum products still represent about 31%, while natural gas makes up around 26%.⁸² In this segment, Latvia is fully dependent on exporting countries not only in terms of supplies, but also of infrastructure and transport routes.

Latvia's economy has one of the lowest carbon intensity figures—measured in tonnes of CO₂ equivalent per capita—in the EU (6.1 t, compared to an EU average of 8.9 t).⁸³ Consequently, the (legally binding) national emissions reduction target was set at 6% of

⁷⁹ See Sebastian Tomczak, "Comparison of the financial standing of companies generating electricity from renewable sources and fossil fuels: A new hybrid approach," *Energies* 12(20) (October 2019), p.2.

⁸⁰ "Data & Statistics: Electricity generation by source, Latvia 1990-2018," International Energy Agency, Electricity Statistics 2019, last updated 30 April 2020; "Data & Statistics: Heat generation from renewables and waste by source, Latvia 1990-2018," International Energy Agency, Renewables Information 2019, last updated 30 April 2020.

⁸¹ "Data & Statistics: Electricity generation by source," International Energy Agency.

⁸² "Data & Statistics: Total primary energy supply (TPES) by source, Latvia 1990-2018," International Energy Agency, World Energy Balances 2019, last updated 30 April 2020.

⁸³ European Environment Agency, "Greenhouse gas emissions per capita," Eurostat, last updated 5 February 2020.

2005 levels by 2030.⁸⁴ From 2018 onwards, however, the target is a 12.5% reduction, a very serious task that requires broader progress in the country's energy transition and economic transformation.

Latvian power plants have been almost completely renovated since 2005. Hydro plants on the Daugava River have their installed capacity of 1,554 MW with normalised (average long term) yearly production of 2.7 TWh. Meanwhile, three new combined cycle gas turbine (CCGT) new natural gas stations were brought online in 2005, 2009 and 2013, with respective capacities of 144 MW, 440 MW and 440 MW.⁸⁵ These are very important elements of the common electricity system of the Baltic states. In practice, Latvia is able to generate enough electricity to balance its consumption nearly 100% of the time. In 2018, it was able to satisfy 90% of national electricity demand with domestic production; this figure fell to 84% in the first nine months of 2019 as drier weather conditions limited hydro capacity.⁸⁶

Significant progress has also been made in strengthening the national electricity grid and its linkages with neighbouring Estonia and Lithuania. This is important in two regards. First, it enables larger-scale adoption of renewable sources of energy such as solar and wind. For example, in November 2019, a new 207km-long 330 kV power line along Latvia's Baltic and Gulf of Riga coastline became operational.⁸⁷ This opens up the possibility to harness at least 500 MW of onshore and offshore wind energy. A further 300 MW will become possible after the completion of a power line between Riga and Kilingi-Nõmme in Estonia.

Second, it is an important step in preparing for the synchronisation of the Baltic power grid with the Continental European system in 2025. As noted earlier in the report, the European Commission's CEF has provided the largest possible funding share (75%) for the first phase of the project, with Latvia receiving around €58 million. As part of its second phase—estimated to cost around €1.2 billion—almost €100 million will be invested in Latvia to strengthen the national grid and cross-border interconnections.⁸⁸

In terms of gas supply, the Klaipėda LNG terminal in Lithuania is becoming an important element in Latvia's gas transmission system; it has led to increased utilisation of the Inčukalns

The Klaipėda LNG terminal in Lithuania is becoming an important element in Latvia's gas transmission system

underground gas storage facility in Latvia. As of November 2019, this terminal was the biggest gas delivery point for the Baltics—larger than the pipelines from Russia. Throughout 2019, trade in natural gas across the Lithuanian-Latvian border was significantly more active due to the favourable situation on global LNG markets. Thus, the ratio between deliveries to the Latvian gas transmission system from Klaipėda and Russia reached 1:4 (compared to 2:98 in 2018); meanwhile, the utilisation rate of the Inčukalns facility reached 75% in October 2019, compared to 54% the previous year.⁸⁹

4.2. ENERGY AND CLIMATE ISSUES DURING THE 2018 ELECTION CAMPAIGN

Given the steady improvement in Latvia's energy security in recent years, and in light of the fact that key decisions such as synchronisation with the Continental European grid had been finally agreed, energy issues did not feature high on the parliamentary election campaign agenda in 2018. Climate issues,

⁸⁴ European Parliament and the Council of the European Union, "[Regulation \(EU\) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation \(EU\) No 525/2013](#)," *Official Journal of the European Union*, 19 June 2019.

⁸⁵ "[Latvian electricity market overview](#)," AST, 2019, accessed 15 January 2020.

⁸⁶ "[Latvian electricity market overview](#)," AST.

⁸⁷ "[State Construction Control Bureau of Latvia accepted commissioning of Kurzeme Ring project](#)," AST, 5 November 2019.

⁸⁸ "[Baltic states and Polish transmission system operators submitted investment request of the Baltic states synchronisation project Phase II to NRAS](#)," AST, 11 November 2019.

⁸⁹ "[Capacities actually used](#)," Conexus Baltic Grid, accessed 15 January 2020; "[Capacity and gas flow data](#)," Amber Grid, accessed 15 January 2020.

carbon neutrality and the energy transition also were absent from the discussion. At the same time, according to Eurobarometer, just over 50% of Latvians say they are very or somewhat concerned about climate—a result that has remained steady for the past dozen years.⁹⁰

Given the steady improvement in Latvia's energy security and security of supply in recent years, energy issues did not feature high on the parliamentary election campaign agenda in 2018

However, one aspect of national energy policy that is directly related to the climate change and energy transition issues did stand out in the run-up to the elections: support for renewable energy development, natural gas cogeneration of electricity and operational support of large (above 100 MW) CCGT generators—all of which ultimately is paid for by the end consumers of electricity. Armed with Eurostat electricity price breakdown information, the political opposition launched a sustained campaign against these three aid methods—employing statistical comparisons with other EU Member States showing Latvia at the very top in terms of aid provided. Moreover, the industry insisted that only households must pay for renewable energy support.

In reality, Latvian law has been clear on the intensity of support, timeframe, application and procedures for granting this aid, thereby reassuring industrial investors. Except for hydroelectric power plants on the Daugava, all of Latvia's more than 400 power plants have received (and continue to receive) support in the form of feed-in tariffs or capacity payments. After the end of the permissible state aid period, however, they are supposed to switch market conditions. Such aid has been declared compatible with the Treaty on the Functioning of the European Union by the European Commission. However, criticism of support—whether due to principled disagreement, issues in implementation, or irregularities in operation of the power plants concerned—continued to persist, and large segments of the price-

sensitive electorate supported abolishing the aid programme.

As a result, every new Latvian government faced a wave of inquiries and legal requests from the Saeima (parliament) opposition, regardless of the new composition of the ruling coalition after the elections. Through traditional and online social media channels, the issue continued to afflict national energy policy as well as domestic politics more generally. A special investigative committee was formed in the Saeima to determine the answers to three questions; whether the aid programmes have been conducted in accordance with national and EU legislation, whether there has been any corruption and whether there has been any economic damage. With high-profile figures such as government ministers—including the prime minister—called to testify, this ensured that an issue carried over from the previous parliamentary term remained at the centre of political and public attention in 2019. The broader implication is that this highly-charged political context may negatively affect the overall long-term sentiment towards policies designed to provide financial incentives for completing the country's energy transition and achieving carbon neutrality goals.

4.3. KEY GOVERNMENT INITIATIVES AND PRIORITIES

The Saeima elections in October 2018 resulted in a very fragmented parliament that struggled to form a viable majority to govern. Its difficulties also partly stemmed from the effort to build a *cordon sanitaire* around Harmony—the party that won the largest number of seats, but which is often deemed pro-Russia in its views and external links—in order to prevent it from joining (or even leading) the Latvian government.⁹¹ After long negotiations and two attempts to nominate a prime minister, an agreement was reached at the end of January 2019. The new coalition includes

⁹⁰ European Commission, "[Latvia](#)," Special Eurobarometer 490 (Climate Change), April 2019.

⁹¹ Vassilis Petsinis, "[As long as it lasts: Latvia's new coalition government](#)," openDemocracy, 26 January 2019.

representatives of five political factions: three centre-right parties (New Unity, New Conservatives and Development/For!), one national conservative party (National Alliance) and most—though not all—deputies from the populist Who Owns the State?/KPV party. The pervasive criticism of the power plant support programme described above created some dramatic moments in the coalition-building talks, and Who Owns the State?/KPV splintered, as some of its representatives voted against approving the new government.⁹²

The new cabinet is headed by Prime Minister Krišjānis Kariņš (New Unity), who began his political career as minister of economy and gained political experience as a two-term member of the European Parliament. The Latvian government's programme of action in the energy sector does not contain any dramatic changes to the general objectives of its predecessors—with one exception. It promises to eliminate existing aid for renewable energy and natural gas cogeneration plants, while also abolishing capacity support to existing large gas-fuelled production facilities. The challenge will lie in fulfilling this promise in a legally correct manner, without causing financial damage to investors or deterring them from financing further power generation capacity improvements, especially from renewable sources. The Ministry of Economy has recently been instructed by the prime minister to commence work immediately on a new mandatory procurement component (MPC) monitoring project, albeit with a view to eventually abolishing this component as stipulated in the government's programme.⁹³

In the meantime, the above-mentioned Saeima special committee investigating support payments to power plants completed its work in February 2020. After having heard the testimonies of 53 officials—cabinet ministers,

senior civil servants and energy experts—it found that no wrongdoing or corrupt intent could be established, although it concluded that governments in office since 2005 have failed to adjust the country's regulatory framework to changing external conditions. Although the report echoed the government's most recent instructions to the Ministry of Economy, which it called on to "immediately develop and present to the Saeima a legal framework repealing the mandatory purchasing system," it did note that revocation of the law would not affect already concluded contracts for which development permits have been granted and substantial/irreversible investments have already been made.⁹⁴ It remains to be seen whether these latter conditions will be sufficient to assuage either investors or the political opposition.

Regardless of a high degree of continuity in the overall energy strategy, it can be concluded from the prime minister's public statements that his government will seek to be a more active player in climate policy than its predecessors—despite the relative indifference of a large proportion of Latvian society

Regardless of a high degree of continuity in the overall energy strategy, it can be concluded from the prime minister's public statements that his government will seek to be a more active player in climate policy than its predecessors—despite the relative indifference of a large proportion of Latvian society. At the Sibiu informal European Council meeting in May 2019 Prime Minister Kariņš said:

Until now, Latvia has been passively involved in the implementation of climate policy. We must radically change the approach: from a country that reluctantly accepts another one, to a country that is one of the main drivers of climate policy in

⁹² "Saeima approves Kariņš government," *The Baltic Times*, 23 January 2019.

⁹³ "Prime minister orders development of proper government MPC monitoring rules," *Baltic News Network/LETA*, 14 February 2020.

⁹⁴ Saeima (Parliament of Latvia), "Saeimas Parlamentārās izmeklēšanas komisijas 'Par OIK atbalsta ieviešanas mērķiem, ietekmi, kritērijiem atbalsta saņemšanai, atbalsta intensitāti, Eiropas Komisijas 2017. gada 24. aprīļa lēmumu lietā SA.43140 (2015/NN) un par nodarīto kaitējumu un tiesību aizsardzības institūciju rīcību' galazinojums" [Final report of the Saeima Parliamentary inquiry commission on the objectives, impact, criteria for aid implementation, aid intensity, Decision of the European Commission of 24 April 2017 in Case SA.43140 (2015/NN), and damage and action by law enforcement institutions], Special Inquiry Commission, February 2020.

the European Union. Latvia joins the European Union group of Member States, which believes that Europe needs to address climate change seriously and devote more resources to tackling this global challenge. It is also our opportunity – with the help of total European Union investments in cohesion policy, to substantially transform Latvia's economy so that it can create and offer a variety of technological solutions and services to tackle climate change at global level.⁹⁵

During this meeting, Latvia joined Belgium, Denmark, France, Luxembourg, the Netherlands, Portugal, Spain and Sweden in calling on the EU to pursue a more ambitious strategy to deal with climate change—a call that served as a precursor to the European Green Deal rolled out by the new European Commission after the European Parliament elections in autumn 2019. Subsequently, Latvia announced its support for the EU target of achieving carbon neutrality by 2050. In this context, a small but important step was made by the present coalition as an immediate short-term measure within the framework of the national taxation legislation and budget process: a gradual increase in the CO₂ tax from €4.5 per tonne in 2019 to €15 in 2022.⁹⁶

In November 2019, the government established a National Council for Energy and Climate. This represents a big step forward in bringing together various stakeholders to discuss challenges, build consensus, coordinate actions

agencies, businesses and the non-governmental sector. One of its first meetings focused on wind energy and sought to provide input into the National Energy and Climate Plan 2021-2030.

The latest iteration of the National Energy and Climate Plan 2021-2030—already drafted by the Kariņš government—takes into account the recommendations issued by the European Commission in response to its 2018 version. The Commission's main criticism of Latvia was about its low 2030 renewable energy target (originally set at only 45% of gross consumption. In the newly submitted draft, this figure was increased to 50%, made possible due to the plans to tap into both onshore and offshore wind potential and thereby bring an additional 800 MW of renewable energy capacity to the market (including through regional/cross-border projects such as a planned offshore windfarm in the Gulf of Riga, to be developed jointly with Estonia).⁹⁷ The plan also envisages the promotion of renewables on the basis of market principles, without any specific state aid or consumer participation—a clear departure from current policy. However, it raises the possibility of auctions, in case market incentives prove insufficient at generating investor interest.⁹⁸

The plan also highlights the importance of regional cooperation in the context of the establishment of a single market for natural gas in Finland, Estonia and Latvia. In this regard, the government is still dealing with the legacy of a continuing failure to resolve the issue of ownership in its incumbent gas transmission system operator, Conexus Baltic Grid—which has resulted in considerably delayed implementation of the EU's third energy package,

notably its provisions related to the unbundling of gas transmission, distribution and sales ownership. This implementation is a critical issue for facilitating Latvia's participation in the

The Latvian government is still dealing with the legacy of a continuing failure to resolve the issue of ownership in its incumbent gas transmission system operator—which has resulted in considerably delayed implementation of the EU's third energy package

and provide inputs into national decision-making. The council includes the prime minister, the ministers of environment, economy, finance, transport and agriculture as well as representatives of various state

⁹⁵ "Kariņš: European Union's climate policy is an opportunity for Latvia's economy," State Chancellery of Latvia, 10 May 2019.

⁹⁶ Saeima (Parliament of Latvia), "Par vidēja termiņa budžeta ietvaru 2020., 2021. un 2022. gadam" [On the medium-term budgetary framework for 2020, 2021 and 2022], *Latvijas Vēstnesis*, 240, 28 November 2019.

⁹⁷ "Eesti Energia: Estonian state took an important step in establishing the first offshore wind farm in the Gulf of Riga," Enefit Green, 20 December 2019.

⁹⁸ Cabinet of Ministers of Latvia, *Nacionālais enerģētikas un klimata plāns 2021.-2030.gadam* [National energy and climate plan 2021-2030] (Riga: Cabinet of Ministers, 2019).

common regional gas market and ensuring fair competition among all market players.

Last December, the Latvian energy regulator issued a warning to Conexus Baltic Grid: if Russia's Gazprom (which owns 34.3% of shares) and Marguerite Gas I S.a.r.l. (holder of 29.06%) do not sell their shares by the end of 2019, the company—and not its individual shareholders—could be subject to a fine of up to 10% of its annual income.⁹⁹ This is the second step taken by the regulator; its previous 2018 effort was blocked when Conexus Baltic Grid challenged its demands in an administrative court. For its part, Gazprom claims that it has no control of the company, arguing that it abstains from supervisory board decisions and does not take part in any hiring or investment decisions—thus acting like any other minority shareholder. Meanwhile, Marguerite Gas's main activities are gas distribution and sales; for such a company, ownership of the gas distribution network is a clear violation of the principles of the third energy package. As of this writing, Gazprom has yet to notify the Latvian government of the sale of its shares. However, there are some reports that a multinational investment firm intends to purchase the Russian firm's stake in Conexus Baltic Grid.¹⁰⁰

4.4. REGIONAL COOPERATION

The present Latvian government is fully committed to enhanced regional energy cooperation in strategic projects and policies, such as synchronisation of the Baltic power grids with the Continental European system, diversification of gas sources and supply routes, advancement of a common (Finland-Estonia-Latvia) gas trading model and development of RES.

Following the October 2019 amendments to the Energy Law of Latvia, the Latvian Public Utilities Commission approved Elering and Connexus Baltic Grid's Common Regulations for the Use of Natural Gas Transmission System in the common Latvia-Estonia entry-exit zone, as well as its Common Regulations for Natural Gas Balancing.¹⁰¹ These regulations have been in force since 1 January 2020. Latvia, Estonia and Finland have also agreed to establish a single input/output fee zone for natural gas transmission, eliminating any fees for gas flows crossing borders between these countries. Furthermore, the annual standard capacity product fee for output points with connections to transmission systems outside the unified area will be the same. By passing new legislation, Latvian authorities gave Connexus

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Baltic Grid full freedom to cooperate with the other national gas transmission system operators in the new common trading area.¹⁰²

Although Lithuania has not yet joined the integrated regional gas market, Latvia is keen to draw upon the opportunities to diversify gas supply routes through its southern neighbour. The Lithuanian-Latvian gas pipeline capacity-building project is expected to be implemented by the end of 2023. This project will not only increase transmission capacity between Lithuania and Latvia, but it will also facilitate mutual access to the Klaipėda LNG terminal, the Latvian Inčukalns underground gas storage and the GIPL pipeline scheduled to begin operations in 2022. (The latter will also provide onward

⁹⁹ "Nemiro: Latvia has not yet decided if it wants to acquire Gazprom's shares in Conexus," Baltic News Network/LETA, 4 December 2019.

¹⁰⁰ "Multinational fund might have won auction of Gazprom's shares in Latvia's Conexus," The Baltic Course, 6 January 2020.

¹⁰¹ "About regulations in common Latvian – Estonian gas transmission and balancing zone," Connexus Baltic Grid, 22 October 2019.

¹⁰² "Joint gas infrastructure interoperability test is carried out," Connexus Baltic Grid, 18 December 2019.

access to networks, LNG import facilities and markets in continental Europe). The planned €10.2 million total investment in this project will increase the gas connection capacity to 130.47 GWh per day (GWh/d) in the direction of Latvia (up from 67.6 GWh/d) and to 119.5 GWh/d in the direction of Lithuania (which is currently 65.1 GWh per day).¹⁰³

Prime Minister Kariņš has recently singled out the synchronisation of the Baltic grid with the Continental European electricity system as an absolute priority for regional cooperation

Promising that progress will be closely monitored by the three governments, Prime Minister Kariņš has recently singled out the synchronisation of the Baltic grid with the Continental European electricity system as an absolute priority for regional cooperation.¹⁰⁴ With the project moving ahead, the Latvian government has since made steps to better define the rights, responsibilities and obligations of the national electricity TSO, *Augstsprieguma Tīkls* (AST). These steps aim to give it necessary operational freedom while preventing political interference with the implementation of specific technical objectives. The regulatory authority has also approved a Electricity Transmission System's 2020-2029 development plan for the TSO that includes measures and investments necessary for the successful implementation of Baltic synchronisation within the agreed timeframe.¹⁰⁵ These steps should serve as reassurance that the actions of AST (e.g. its decision, together with Estonian TSO Elering, to postpone an isolated operation test of the Baltic system with Lithuania in mid-2019) are based on the TSO's expert judgment and are not driven by political considerations or undue political interference.

One issue in regional energy security cooperation that does have a political dimension pertains to the Astravyets NPP and Lithuania's goal of reaching common position among the Baltic states against importing power from the facility to the Nord Pool common regional electricity market. While Lithuania wishes to ban imports from this and other sources it deems unsafe, the Latvian Ministry of Economy articulated its position as follows: "With a view to reducing risks to a possible reduction in electricity flow or negative tariff increase, the cabinet supported the Ministry of Economy's offer to transfer this electricity trade to the Latvian border when Lithuania ceases to trade in electricity with Belarus. This solution will ensure that trading conditions with third countries continue to remain equivalent."¹⁰⁶ Consequently, Riga is perceived by Vilnius as having failed to demonstrate solidarity with its southern neighbour's security and geopolitical concerns.

It remains to be seen whether and when the positions of Lithuania—on one hand—and Latvia as well as Estonia, on the other, will be successfully aligned. After the meeting of the three prime ministers in Tallinn in February 2020, Lithuania's Prime Minister Saulius Skvernelis expressed satisfaction that the three countries appeared to be moving closer to the common position and hoped that they would eventually identify an appropriate mechanism of controlling the origin of electricity entering the Baltic grid from third countries.¹⁰⁷ Still, it remains a thorny issue in the bilateral and regional relations that has the potential to fragment the region's energy security. Now, Lithuania (together with Poland) is adopting a more geopolitical perspective that requires an assertive and sometimes confrontational attitude to Russia and Belarus; meanwhile, Latvia and, to some degree, Estonia seem to be

¹⁰³ "Enhancement of Latvia-Lithuania interconnection," Conexus Baltic Grid, accessed 15 January 2020.

¹⁰⁴ "Kariņš in Tallinn to talk with Baltic counterparts and EU Commissioner," Public Broadcasting of Latvia/Lsm.lv, 7 February 2020.

¹⁰⁵ AST, *Ektroenerģijas Pārvaldes Sistēmas Attīstības Plāns 2020-2029* [Electricity Transmission System's Development Plan 2020-2029] (Riga: AST, 2019).

¹⁰⁶ "MK lemj par turpmāko rīcību elektroenerģijas tirdzniecības organizēšanai ar trešajām valstīm" [The Cabinet of Ministers decides on further steps for organising electricity trade with third countries], Ministry of Economy of Latvia, 13 August 2019.

¹⁰⁷ "Prime Minister: we are moving closer to a common agreement not to buy electricity from Astravyets NPP," Office of the Government of Lithuania, 7 February 2020.

pursuing a more pragmatic approach that leans more towards economic utility and technical as well as legal feasibility arguments.

4.5. RISKS AND FUTURE PROSPECTS

Latvia's perception of the Astravyets issue is partly related to its more pessimistic assessment of future risks to energy security and security of supply in the region. Despite Latvia's ability to produce almost all the electricity it currently consumes, AST's risk assessments warn of potential deficits and, consequently, higher prices in the Nord Pool

Despite Latvia's ability to produce almost all the electricity it currently consumes, risk assessments warn of potential deficits and, consequently, higher prices in the Nord Pool market

market. During a public forum in November 2019 (entitled 'National Integrated Energy and Environment Plan 2030 – the Way Towards a Sustainable Low-Carbon Economy'), AST representatives shared their concern that, by around 2024-2025, Baltic power generation capacity may not be sufficient to satisfy market demand. This concern is shaped by the forthcoming closure of oil shale plants in Estonia and the 2023 decommissioning of generating stations in Elektrėnai, Lithuania, due to tightening EU emissions standards. While the growing use of renewables could partially compensate for the loss of this generating capacity, such use would heighten the importance of cross-border trade flows—not only from the Nordic countries and Poland, but also from Russia and Belarus.

In terms of enhancing security of supply and increasing competition in an integrated gas market, plans for a new LNG terminal in Skulte on the Gulf of Riga (approximately 50 km to the north of Riga) are noteworthy. According to the developer, the project consists of an LNG degasification platform with a handling capacity of up to 3 mtpa (million tonnes per year) and direct access to the Inčukalns gas storage

facility by a new 35-km gas pipeline.¹⁰⁸ While long rumoured, the project remains at a very early stage of development; the first public consultation has just taken place, and an environmental impact assessment is only now being prepared.

The intention behind this project is to compete directly with the Klaipėda LNG terminal based on the assumption that the much lower capital expenditure and operational costs (chiefly due to its close proximity to Inčukalns) will give it an advantage in terms of lower usage fees.¹⁰⁹ While the Lithuanian government is now working to address persistent criticism over its socialisation of the mandatory security surcharge with domestic customers by gradually increasing usage fees to Latvian and Estonian customers, this assumption of the Skulte terminal's developers may still hold true.¹¹⁰ However, questions still remain whether Skulte's backers will eventually have to apply for the status of project of national importance in order to at least facilitate planning decisions, if not to pave the way to obtaining state financial support. At least one of the governing coalition parties, the New Conservatives, has publicly expressed support for the project.

There are strong imperatives for Latvia (as well as Estonia and Finland) to seek integration of Lithuania into their new regional gas market

With or without this new terminal, there are strong imperatives for Latvia (as well as Estonia and Finland) to seek integration of Lithuania into their new regional gas market. As noted earlier, Lithuania will soon have the most connection points to outside the Baltic region. Its Klaipėda LNG terminal and the future GIPL

¹⁰⁸ "The project," Skulte LNG Terminal, accessed 15 January 2020.

¹⁰⁹ "Regional LNG terminal," Skulte LNG Terminal, accessed 15 January 2020.

¹¹⁰ Arūnas Molis, "Klaipėdos SGD terminalo lūžio metai – ką žada 2020-ji?" [A breakthrough year for Klaipėda LNG terminal—what does the year 2020 promise?], Delfi.lt, 22 January 2020.

pipeline would be essential elements of this market, providing for better competitiveness, liquidity and security of supply. Latvia's approach to negotiating with Lithuania and resolving the remaining issues impeding Lithuania's integration into this market will play an important role in determining the future prospects for energy security in the region.

Likewise, Latvia will have to find ways to show solidarity with Lithuania on the Astravyets issue, as this has the potential to become truly

Latvia will have to find ways to show solidarity with Lithuania on the Astravyets issue, as this has the potential to become truly toxic for the bilateral and regional cooperation—not just on energy issues, but across the whole spectrum of shared political challenges

toxic for the bilateral and regional cooperation—not just on energy issues, but across the whole spectrum of shared political challenges. Latvia's (and Estonia's) pragmatism will eventually have to be balanced with Lithuania's geopolitical threat perceptions. Vilnius evidently treats the NPP not only as an environmental risk but also as a geopolitical weapon of its main financial backer, Russia, a country bent on undermining energy security in the Baltics by flooding their market with cheap subsidised electricity—thereby rendering their domestic production capacities uncompetitive.

In this context of the above, it will be very important for the Baltic states to recognise the impact of price pressure from third-country electricity trading on both existing and planned sources of electricity generation. Accordingly, the three countries should develop a common policy not only on Astravyets, but also on carbon neutrality. Since most plans for achieving zero net emissions rely on the use of price signals from CO₂ taxes, 'carbon leakage' through exports from countries that ignore (or have not made) climate commitments can undermine the decarbonisation of energy and industry while discouraging private investments in the Baltics.

In an era of technological and climate policy revolutions, energy security can best be maximised—and security of supply boosted—by maintaining openness, accessibility, reliability and security of information. Information that objective, reliable and drawn from primary sources provides an opportunity to examine planned decisions and their underlying assumptions. Raw data on the physical functioning of electricity and gas systems and markets has never before been so

widely available. In the Baltic region, this data is provided by pan-European organisations such as ENTSO-E (electricity) and ENTSO-G (gas) as well as national electricity and natural gas TSOs, trading markets such as Nord Pool and several other open

platforms, both free and commercial. Consequently, consumers, producers and potential investors are able to obtain and analyse the information they need directly. Energy security, climate policy and economic strategy will thus acquire a new dimension: the shared responsibility of government, industry and civil society for strategic choices and their consequences.

In the case of Latvia, however, the ever-greater fragmentation of the political scene and the associated difficulties in reaching and

In the case of Latvia, the ever-greater fragmentation of the political scene and the associated difficulties in reaching and maintaining a political consensus—as well as persistent public distrust in political and administrative elites are perhaps the greatest risks to national climate and energy policy ambitions

maintaining a political consensus—as well as persistent public distrust in political and administrative elites are perhaps the greatest risks to national climate and energy policy ambitions. It can only be hoped that the very creditable start of the current government on

these issues after it took office early last year will allow it to maintain political momentum. The government and the prime minister are displaying remarkable leadership, particularly by going well beyond the demands of a somewhat indifferent society in responding to the climate emergency. The present coalition has almost three years until the next parliamentary election (to be held in late 2022) to implement its energy sector plans. However, the question remains whether energy and climate strategy—as well as progress in regional projects of strategic importance—can be sufficiently insulated from the political turmoil that often accompanies fluid political coalitions and alliances. In the end, this task will be made easier if a whole-of-society perspective and approach to energy/climate policy become ingrained in Latvian political culture.

5. POLAND

5.1. 2019 ELECTIONS

The latest elections to Poland's parliament were held on 13 October 2019. Polish citizens chose all 460 members of the Sejm (the lower house) and 100 members of the Senate (the upper house). With turnout of 61.74%, the incumbent Law and Justice (PiS) party received 43.59% of votes, the highest result for any party since 1989. PiS—which also came first in the 2015 election—won 235 seats in the Sejm, giving it an absolute majority and enabling it to continue exercising power. Meanwhile, the main 'big tent' electoral alliance, known as the Civic Coalition (formed with participation of the Civic Platform, which was in power from 2007-2015), received 27.4% of the vote, giving it 134 seats; The Left (12.56%, 49 seats) finished third; two other groups—the Polish Coalition (an alliance of Christian Democrats and supporters of direct democracy) and the eurosceptic Confederation also secured seats in the Sejm.¹¹¹

¹¹¹ Tomasz Grzegorz Grosse, *Poland's 2019 Parliamentary Election: Special Report* (Warsaw: Warsaw Institute, 2019).

The situation is different in the Senate, where despite the victory of PiS (48 senators), it cannot establish an independent majority. The opposition formed an alliance against PiS, leading to the election of its candidate Tomasz Grodzki as speaker. However, the Senate has limited significance in Polish legislation; its veto on legislation passed by the lower house can be overturned by a supermajority of the Sejm. More immediately, the PiS victory meant that the government of Prime Minister Mateusz Morawiecki (formed in 2017 after an internal party reshuffle that saw the ouster of the Beata Szydło government [2015-2017]) will remain in office.

In 2020, the term of office of current president Andrzej Duda—also associated with PiS—will expire, with the next elections scheduled for 10 May (and postponed until June due to the coronavirus pandemic crisis and the associated quarantine measures in the country). The Polish president is elected directly, using the two-round system; however, the head of state has only limited powers to affect energy policy (among them being the ability to veto laws adopted by parliament). During his current term, President Duda has not been active in the

Energy issues were not strongly emphasised in the public debate or on the campaign trail leading up to the 2019 parliamentary elections in Poland. The most important energy issue of that year was the growing pressure on the electricity prices from the rising cost both of CO₂ emission allowances and of coal prices

field of energy; his public statements on the topic have essentially been limited to expressing support for government policies, particularly in opposing the Nord Stream 2 (NS2) undersea gas pipeline between Russia and Germany.¹¹² The situation may become different if an opposition candidate wins the elections; electoral considerations are already shaping the timeline of Polish government actions with regard to EU climate policy initiatives (see section 5.6 below).

¹¹² "Polish President Andrzej Duda calls for stop to Nord Stream 2 gas pipeline," DW, 23 October 2018.

5.2. CLIMATE AND ENERGY IN ELECTION-YEAR POLITICS

Energy issues were not strongly emphasised in the public debate or on the campaign trail leading up to the 2019 parliamentary elections in Poland. The most important energy issue of that year that political parties did address was the growing pressure on the electricity prices from the rising cost both of CO₂ emission allowances and of coal prices (some 70% of

The opposition claimed that the Polish government was not doing enough to implement various decarbonisation measures, accusing it of, at best, general reluctance to take action on countering climate change—and at worse, of pursuing projects leading towards the opposite result

domestic electricity production is from coal and lignite). The Polish government took measures to protect the consumers from the effects of this pressure. The main intention was to maintain average electricity bills at their 2018 levels. To achieve this, the excise duty on electricity was significantly reduced and other related additional fees and charges lowered. As a result, throughout 2019, Polish consumers' power bills remained the same as those of the previous year. However, due to their cost, these measures cannot be continued in 2020, so electricity bills will gradually increase; nevertheless, the government declared that it would adopt a consumer compensation system by the end of the year.

The 2019 system of price support for consumers did not include entrepreneurs and local governments, so their electricity expenditures increased. This was reflected in the growing popularity of small-scale generating capacity (e.g., at the end of 2018, nationwide installed solar power capacity installed in Poland was 471.4 MW, compared to about 1,185 MW a year later).¹¹³ Meanwhile, the 'freezing' of electricity bills was criticised by

the opposition which characterised the policy as a ploy designed to shore up public support for PiS in the run-up to the elections.¹¹⁴

Climate issues, however, were present in the pre-election political debate. According to Eurobarometer, about 70% of the Polish people identify climate change as a very serious problem.¹¹⁵ The opposition claimed that the government was not doing enough to implement various decarbonisation measures, accusing it of, at best, general reluctance to take action on countering climate change—and at worse, of pursuing projects leading towards the opposite result. Poland's stance within the EU with regard to climate policy has been characterised as one chiefly focused on finding ways to opt out from Brussels' emissions targets, an approach the opposition labelled 'anti-European' and 'short-sighted'. An example of the criticised actions was the investment that started in 2017 in Ostrołęka, about 120 km north of Warsaw, where a new 1,000 MW coal-fired power plant was planned. The government declared that this would be the last new coal-fired power plant built in Poland; however, it is not planned to be completed before 2025, a time at which the European Green Deal is expected to be already in force.¹¹⁶

These issues were also raised during the election campaign. However, the governing PiS focused on presenting its biggest successes from its term in office rather than responding to criticisms. Among the success stories it touted were organising and hosting the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP24), as well as initiatives against smog in the cities and support programmes for prosumers. They also promoted the announced merger of PKN Orlen and Lotos, two largest Polish fuel companies, with a vision of creating

¹¹³ "Bilans mocy na rok 2020" [Balance of power for 2020], PSE, 1 December 2019; PSE, [Twitter post](#), 10 December 2019, 9:52 a.m.; "PSE: Moc zainstalowana fotowoltaiki wynosi prawie 1,2 GW" [PSE: The installed capacity of photovoltaics is almost 1.2 GW], BiznesAlert.pl, 10 December 2019.

¹¹⁴ "Podwyżki cen energii - kłamstwa rządu" [Energy price increases - lies of the government], Platforma Obywatelska, 21 December 2018.

¹¹⁵ European Commission, "Poland," Special Eurobarometer 490 (Climate Change), April 2019.

¹¹⁶ "Minister Tchożewski: 'To ostatnia elektrownia węglowa w Polsce'" [Minister Tchożewski: 'This is the last coal power plant in Poland'], TVN / PAP, 31 December 2018.

a fuel industry giant in Central Europe. In the meantime, other parties focused on general demands regarding renewable energy support, thermo-modernisation and energy efficiency. During the campaign, the activity of the NGO Youth Climate Strike increased, capturing public attention. The decarbonisation demands of the 'strikers' were supported by the Civic Coalition, the Left and the Polish Coalition.

The cleavages between PiS and the opposition over energy and climate issues do not mean that there is no scope for consensus. The governing party and its political opposition seem to be on the same page concerning the need to diversify gas and oil supplies away from Russia—an issue whose urgency was yet again highlighted by oil supply delivery problems experienced by Belarus at the end of 2019 as a result of strongly geopolitically-tinged economic disagreements between Minsk and Moscow.¹¹⁷ There is currently no political party in Poland that supports maintaining the current energy supply model, in which Russia still has a major role.

5.3. CHANGES IN THE GOVERNMENT STRUCTURE

Immediately after the elections in October 2019, there were significant changes in supervision of the Polish energy sector. The Ministry of Energy—headed by Krzysztof Tchórzewski, the main architect of Polish energy policy until that year—was dissolved. Its functions were divided among three new ministries:

- **Ministry of Climate**, a new ministry headed by Michał Kurtyka, former deputy minister of energy and president of COP24. This ministry will supervise energy regulations and climate policy. Moreover, within this ministry, there will be a government plenipotentiary for RES.

- **Ministry of State Assets**, headed by Deputy Prime Minister Jacek Sasin. This ministry will exercise ownership supervision over state-owned energy companies.
- **Ministry of Development**, headed by Jadwiga Emilewicz. In the energy area, the ministry will supervise clean-air measures.

The governing party and its political opposition seem to be on the same page concerning the need to diversify gas and oil supplies away from Russia

This division of tasks reflects the government's plans and priorities for energy for the current term. These priorities include:

- **Reform of corporate governance.** The purpose of this reform is to harmonise the activities of all state-owned companies so that they begin "to function as one organism", as Deputy Prime Minister Sasin explained.¹¹⁸ To achieve this goal, five teams were established in the Ministry of State Assets; each will deal with a distinct area such as holdings law, reforms to the functioning of supervisory boards and issues related to access and protection of data.¹¹⁹
- **Development of offshore wind farms**, to achieve the goals set in National Energy Policy (PEP2040) and the National Plan for Energy and Climate. This area will be the everyday responsibility of the government's plenipotentiary for RES. At present, work on draft legislation establishing a public support system for offshore wind farms is in progress.

¹¹⁷ Yauheni Preiherman, "[Unsettled union: The future of the Belarus-Russia relationship](#)," ECFR Commentary, 21 January 2020.

¹¹⁸ "[Że dla spółki, dobrze dla holdingu. Jacek Sasin o celach reformy nadzoru właścicielskiego](#)" [Bad for the company, good for the holding company. Jacek Sasin on the objectives of the reform of corporate governance], wnp.pl/PAP, 14 February 2020.

¹¹⁹ "[Minister Aktywów Państwowych powołał komisję ds. reformy nadzoru właścicielskiego](#)" [The Minister of State Assets appointed a commission for the reform of corporate governance], Energetyka24/PAP, 11 February 2020.

- The government will also continue its efforts directed at promoting household **thermomodernisation** of households, replacing home stoves and increasing energy efficiency. It plans to adopt a new support system for households affected by rising energy prices at the end of 2020.

It is with this structure and priorities that the Polish government is now setting out to revisit and redraw national policies and plans for energy and climate issues—and engage key domestic and international stakeholders—in the medium to long-term.

A large number of currently operating coal and lignite power plants will have to be closed—opening space for a more fundamental discussion about the future shape of energy mix in Poland

5.4. CURRENT AGENDA ITEMS

The topic of the European Green Deal has been resonating ever more strongly in the Polish debate since the December 2019 European Council summit. Discussions have centred around analysing the opportunities for Polish regions related to the JTF announced by the European Commission as part of the proposed European Green Deal, as well as the Polish strategy on achieving full decarbonisation—a difficult goal due to strong dependence of the Polish economy on fossil fuels.

The issue of **decarbonisation** is directly related to the country's reliance on aging power generation sources, most of which were commissioned in the 1970s and 80s. Currently, most are struggling to achieve even current emission standards. The situation will get still more complicated after 2025, when stricter increased European emission requirements for the power plants applying for capacity support mechanisms will come into force. This means that a large number of currently operating coal

and lignite power plants will have to be closed after this date—opening space for a more fundamental discussion about the future shape of energy mix in Poland, as well as shorter-term measures to meet electricity demand after 2025.

Three general potential scenarios emerge from the debate: 1) an increased share of RES, supported by gas; 2) maintaining the share of coal units with a gradual increase in the share of RES, 3) and construction of a nuclear power plant. To date, discussions on this topic are conducted mainly among experts; political parties refer to these issues only in a minimal way. The governing party's programme, shaping the government's actions, seems to be a combination of all three scenarios.

Predictions regarding decarbonisation and the inevitably decreased role of

coal in Polish energy raise questions about the future of the country's mining sector. They are compounded by the growing cost of coal mining and high prices of CO₂ emission allowances. The growing price of Polish coal and its poor quality have already led to a situation in which Polish companies import cheaper and better-quality

Predictions regarding decarbonisation and the inevitably decreased role of coal in Polish energy raise questions about the future of the country's mining sector

fuel from Russia.¹²⁰ This is criticised by opposition parties and trade unions alike. Eventually, the deputy prime minister announced in February 2020 that the government will seek to prevent the state-owned companies from importing cheaper coal from Russia.¹²¹ However, this will only solve one of the problems—while saddling energy companies with higher input prices (which will translate directly into higher electricity and

¹²⁰ Przemysław Cizak, "Embargo na węgiel z Rosji. 'Ekonomicznie Polsce to się nie opłaca'" [Coal embargo from Russia. 'Economically this will not be profitable for Poland'], Money.pl, 8 October 2019.

¹²¹ "Sasin: 'nie' dla kupowania węgla za granicą przez państwowe spółki" [Sasin: 'no' to buying coal abroad by state-owned companies], Business Insider Polska/PAP, 4 February 2020.

heating bills). What is worth emphasising is that none of the opposition parties explicitly demands a limit to coal mining in Poland—albeit mainly to avoid incurring the political wrath of miners, their trade unions and supporters. Government representatives, in turn, occasionally declare their intent to maintain coal extraction at the current level—or even increase it in the future.¹²²

On the other hand, **natural gas** has become a cheaper and abundantly available alternative to coal. In recent years, the Polish gas market has experienced a series of major developments. The ‘game changer’ was the inauguration of an

Natural gas has become a cheaper and abundantly available alternative to coal. The ‘game changer’ was the inauguration of an LNG terminal in Świnoujście, which immediately enabled Poland to obtain gas from any non-Russian source

LNG terminal in Świnoujście, which immediately enabled Poland to obtain gas from any non-Russian source; currently Poland already has supply agreements with the United States and Qatar. The government has already announced the expansion of this terminal—signing a contract in February of this year; it is even considering the construction of a new one.¹²³ The terminal’s current regasification capacity is 5 billion cubic metres (bcm) per year; and the expansion plans envisage increasing it to 7.5 bcm.

The gas market will also see an influx of supplies from the North Sea via the Baltic Pipe link to Denmark; construction of this interconnection is currently underway. According to plans, transmission via this pipeline will be possible starting in October 2022. It will be able to transport up to 10 bcm of natural gas annually to Poland, covering up

to 60% of domestic demand.¹²⁴ On the other hand, it is estimated that in coming years, the demand for natural gas in the Polish economy will grow, thus possibly straining even the expanded gas infrastructure capacity.

Beginning in 2016, one of the most important topics in the Polish debate—especially during the heating season—is **air pollution**. This problem, which is particularly acute in urban areas, evokes urgent public demands for effective government action to address a problem with serious implications for public health, quality of life and environment. This is now reflected in a fairly wide range of government’s policies and activities such as: enhancing quality standards for solid fuels; eliminating high-emission heating sources; providing support to thermomodernisation of single-family houses, and increasing the number of air quality measuring stations.

5.5. PLANS AND POLICIES

In 2018, the Polish Ministry of Energy published a draft of a new National Energy Policy (PEP2040) outlining the road ahead for the sector up to the year 2040.¹²⁵ The policy presents a strategic approach to the most important challenges that Poland is likely to encounter over the upcoming decades. PEP2040 is one of nine sectoral strategies in Poland foreseen as a contribution to the European effort to create sustainable and environmentally friendly economies. After the first phase of public consultations, the first draft version was updated. The version published in November 2019 follows quite closely the PiS’s political programme and envisages the following:

- **Effective use of domestic energy resources** focusing on innovative ways of using coal to minimise environmental impacts, as well as on the search for

¹²² “Premier Mateusz Morawiecki: Wegiel to nasze czarne złoto” [Prime Minister Mateusz Morawiecki: Coal is our black gold], Office of the Prime Minister of Poland, 19 September 2018.

¹²³ “Umowa na rozbudowę Terminalu LNG w Świnoujściu została podpisana” [The contract for the expansion of the LNG Terminal in Świnoujście has been signed], Gaz-System, 24 February 2020; “Second LNG terminal in Poland,” Central Europe Energy Partners, 23 July 2019.

¹²⁴ “Poland to route Baltic Pipe gas line through Swedish waters,” Reuters, 20 June 2018.

¹²⁵ Ministry of Energy of Poland, *Polityka energetyczna Polski do 2040 r.* [Polish Energy Policy to 2040] (draft for public consultation) (Warsaw: Ministry of Energy, November 2019).

new natural gas and crude oil deposits. At the same time, the critical importance of coal to the national energy balance is emphasised.

- **Investments in energy generation and distribution infrastructure** to facilitate broader changes in the electricity generation mix while replacing aging power generation units. With regard to the latter, the document points to the capacity market introduced in 2017 as one remedial action.
- **Natural gas and oil supply diversification** based on the development of infrastructure such as the Baltic Pipe project and expansion of the LNG terminal in Świnoujście. (As part of diversification of crude oil supplies, it is planned to expand the Pomeranian Pipeline that will allow for an increase in the share of non-Russian oil imports, in particular, crude oil from the Middle East).¹²⁶
- **Energy market development** to achieve fully transparent and competitive electricity, natural gas and liquid fuels markets with a strong focus on ensuring the participation of leading consumers. Poland will strive to cover the demand for electricity using domestic generation. Cross-border connections should be an additional source of supply, aimed at promoting market development, reducing electricity prices, and ensuring the security of supply in emergency situations.
- **Lowering energy sector emissions** whilst increasing security of supply, primarily as a result of commissioning the first Polish nuclear power plant.
- **Increasing the share of RES** in energy consumption, primarily in the electricity-generation, transport and heating/cooling sectors, with a combined total of 21% of RES in final energy consumption by 2030. The main strategic direction in this area is development of offshore wind farms.

- **Investments in heat and electricity cogeneration** in order to support broad access to public heating, thereby facilitating minimisation of the individual use of environmentally-harmful fuels.
- **General energy efficiency improvements** targeted at increasing the competitiveness of the national economy; this goal is measured by metrics including primary energy savings milestones and progress in reducing energy poverty.

The document lists the following indicators by which progress towards achieving these goals can be assessed:

- 56-60% share of coal in electricity generation in 2030 (compared to over 70% currently);
- 21-23% RES in gross final energy consumption in 2030 (compared to about 12% at present);
- adoption of nuclear energy beginning in 2033;
- improvement of energy efficiency by 23% in 2030 compared to 2007 levels;
- 30% CO₂ reduction by 2030 (compared to 1990 levels).

A slightly diverging set of ambitions has been outlined in the National Plan for Energy and Climate for 2021-2030, prepared for the European Commission.¹²⁷ After approval of the final version of the plan by the Commission, PEP2040 is expected to be updated—thus guaranteeing cohesion between these two documents. The plan anticipates a much faster decommissioning of the old coal power plants—only 6,800 MW will be produced by old hard coal power plants in 2030 (in the PEP2040, this figure is 9,300 MW). If the plan's assumptions hold true, Poland will close half of its old coal power plants in the next ten years—and over half of lignite power plants by 2035. Both documents agree that the last coal power plant built in Poland is to be the Ostrołęka

¹²⁶ "Miland: The extension of the Pomeranian pipeline will serve not only Poland," BiznesAlert.pl, 9 March 2018.

¹²⁷ Ministry of Energy of Poland, *Krajowy plan na rzecz energii i klimatu na lata 2021-2030* [National Plan for Energy and Climate for the Years 2021-2030] (Warsaw: Ministry of Energy, December 2019).

facility mentioned above.¹²⁸ The plan also envisages a significant development of electromobility: by 2025, a million of electric cars are expected on the roads in Poland.

Generally, the National Plan indicates the following goals for 2030:

- 7% reduction of greenhouse gas emissions in non-ETS sectors, as compared to 2005 levels;
- 21-23% share of RES in final gross energy consumption (the 23% target will be achievable if additional EU funds are allocated to Poland, including those intended for 'just transformation'), including:
 - 14% share of RES in transport;
 - a yearly increase in the share of renewable energy in heating and cooling by 1.1%;
- 23% increase in energy efficiency compared to 2007 levels;
- 56-60% share of coal in electricity generation in 2030.

The Polish government seems to be fully aware of the inevitability of decarbonisation

Council to adopt the goal of achieving carbon neutrality by 2050. This ambition became the basis of the European Green Deal, a broad set of initiatives aimed at transforming European climate and energy law.

Poland has not yet endorsed this ambition; however, this does not mean that the government plans to use its veto power to block future implementation. The Polish government seems to be fully aware of the inevitability of decarbonisation, an awareness reflected in the official documents. It is also evident from Warsaw's efforts to secure greater funding from the JTF—the proposed European financial mechanism designed to mitigate the negative socio-economic impact of energy transition—for transforming Polish mining regions. After the December 2019 announcement, the Polish government formally asked for more time to analyse the implications of carbon neutrality for Poland's economy and society. This analysis will be presented at the Council summit in June 2020.

One reason for this delay is strong opposition to decarbonisation from the largest Polish trade unions. According to many commentators, the government does not want to create a situation in which resistance from trade unions would lower support for President Duda in the 2020 election. However, even after the presidential election, social resistance—from mining regions as well as trade unions—will remain one of the greatest obstacles towards the achievement of Polish climate goals, as well as the fulfilment of

Even after the presidential election, social resistance—from mining regions as well as trade unions—will remain one of the greatest obstacles towards the achievement of Polish climate goals, as well as the fulfilment of existing and anticipated future policy commitments

The plan was submitted to the European Commission at the end of December 2019; however, in January of this year, the climate minister signalled the need to further review

¹²⁸ On 13 February 2020, Energa and Enea, the energy groups involved in Ostrołęka C project, announced that they were suspending their financing of this investment. This was interpreted as a decision to abandon further construction work on the project. See: "[Energa i Enea zawieszają finansowanie budowy nowego bloku węglowego w elektrowni Ostrołęka](#)" [Energa and Enea suspend financing for the construction of a new coal block at the Ostrołęka power plant], Business Insider Polska/PAP, 13 February 2020.

¹²⁹ "[Ministerstwo Klimatu ponownie analizuje Krajowy Plan na rzecz Energii i Klimatu](#)" [Ministry of Climate re-examines National Plan for Energy and Climate], BiznesAlert.pl, 31 January 2020.

existing and anticipated future policy commitments. Since changes in current energy policy—especially adjustments to the country’s energy mix—will inevitably mean a shift towards decarbonisation, this will have considerable consequences on employment rates in mining regions. The significant dependence of the Polish economy on coal also means higher transformation costs compared to other European countries; for Poland, they are roughly estimated to be between €179–206 billion. Although they will be partly covered by the EU funds (e.g. from JTF), a significant part of the transition costs will still have to be borne by Polish taxpayers and consumers who remain price-sensitive—and who already face higher electricity bills beginning this year.

Another challenge will be also ensuring the availability of sufficient generation capacity after decommissioning the old coal and lignite power plants. The solution here may be the introduction of an effective support system (currently in the development stages) for offshore wind energy. As noted above, Poland also plans to inaugurate its first nuclear power

5.6. THE REGIONAL DIMENSION

One of the most important strands of the Polish government’s energy policy—and the one that enjoys the broadest cross-party support—is the goal of making the Polish economy independent of gas supplies from Russia by 2022. In November 2019, Poland announced that it would not extend or renegotiate the unfavourable Yamal contract—a long-term agreement for natural gas supplies between Polish gas company PGNiG and Gazprom that is set to expire in 2022.¹³⁰ In addition to the LNG terminal in Świnoujście and the undersea Baltic Pipe interconnector to Denmark and the North Sea, Polish gas companies are encouraged to conduct domestic shale gas exploration. Moreover, by the same token, Poland also supports the efforts of the Baltic states to become independent of gas supplies from Russia—efforts that will be boosted by completion of the GIPL pipeline to Lithuania.

This strong push towards diminishing the potential for Russia to use its gas supplies as an instrument of geopolitical pressure on Poland and its EU neighbours is also reflected in Warsaw’s position in relation to NS2. Together with the Baltic states and Ukraine, Poland remains among the staunch opponents of the project; Warsaw perceives NS2 as instrumental to Moscow’s ambitions to keep the EU dependent on Russian gas imports, undermine Ukrainian security, and ensure that the EU and Eastern Partnership countries remain vulnerable to strategic coercion and malignant political influence.¹³¹ Although such a stance has put Warsaw on a collision course with Berlin on more than one occasion, it is unlikely to change under the present government; moreover, it closely follows the geopolitical concerns of a key security ally of

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plant by 2033. However, this goal will be rather difficult to achieve: the location for the plant has not yet been selected, and its financial model is still under preparation; moreover, the country would also have to build its nuclear energy regulatory framework and supervisory capacity almost from scratch—all while resolving numerous complex and often politically-controversial issues regarding various aspects of managing nuclear power production (especially the management and disposal of spent fuel).

¹³⁰ “Polska porzuci kontrakt jamalski. Oświadczenie PGNiG przekazane Gazpromowi” [Poland will abandon the Yamal contract. PGNiG statement forwarded to Gazprom], TVP Info/PGNiG/PAP, 15 November 2019.

¹³¹ Agata Łoskot-Strachota, Rafał Bajczuk and Szymon Kardaś, “Nord Stream 2 divides the West,” OSW Commentary, 18 June 2018.

Poland, the United States (which in December 2019 announced sanctions against the companies involved in NS2 construction).¹³²

Poland is also involved in the synchronisation of the Baltic states with the electricity grid of Continental Europe. Currently Poland and the Baltic states are linked through the LitPolLink overland HVAC interconnector; there are now plans for another connection, the Harmony Link undersea HVDC cable, which should be finished before 2025 (although, as noted in the chapter on Lithuania, there are some indications that it may instead be completed only by 2027).¹³³ As Polish electricity TSO *Polskie Sieci Elektroenergetyczne* (PSE) declared, this connection—in conjunction with LitPolLink—will be sufficient to guarantee the security of supply to the Baltic states after their synchronisation with the Continental European system. An undersea connection is estimated by Polish and Lithuanian sides as a safer option compared to the construction of a second overland interconnector (although some studies argue that, from the perspective of critical infrastructure protection and the situation in maritime security and defence in the Baltic Sea, this might actually not be the case).¹³⁴ Moreover, an HVDC cable was considered as technically necessary for synchronisation.¹³⁵ The required investment for a link with a capacity of 700–1,000 MW is estimated at €700–850 million.¹³⁶

The construction by Belarus of Astravyets NPP is virtually never mentioned in Polish public discussions. Coverage of the project appears in

Polish media only in the context of safety incidents encountered during construction, with articles discussing the related potential risk of radioactive contamination. However, the Polish government has consistently refused even to consider purchases of electricity from Astravyets NPP—just as it does not see any possibility of buying electricity from a technologically similar NPP that Russia is planning to build in its Kaliningrad exclave.¹³⁷

Due to this position, Poland proceeded with demolishing the power line connecting it with Belarus (Białystok-Ros). However, there still remains a threat that electricity from Astravyets will enter the EU system via other physical interconnections and market-based trading

The Polish government has consistently refused even to consider purchases of electricity from Astravyets NP. Warsaw seeks to create a situation by which the transmission of electricity from Belarus to Europe would not be possible for technical reasons

mechanisms, e.g. through trading on electricity market exchanges. It is likely that counteracting such measures will be one of the most important priorities of the Polish government during the Baltic synchronisation process. Warsaw seeks to create a situation by which the transmission of electricity from Belarus to Europe would not be possible for technical reasons. This will be further facilitated, for example, by closing cross-border connections between Lithuania and Belarus; however, Polish and Lithuanian action alone are not fully sufficient, and require cooperation and coordination with Latvia, Estonia and Finland.

¹³² [“US Senate approves Nord Stream 2 Russia-Germany pipeline sanctions,” DW, 17 December 2019.](#)

¹³³ [“New Polish-Lithuanian submarine HVDC cable – ‘HARMONY Link.’ Initial Cooperation Agreement signed,” PSE, 21 December 2018.](#)

¹³⁴ [“Virbickas: Ukończenie Harmony Link do 2025 roku to wyzwanie, ale możliwe do zrealizowania” \[Virbickas: Completing Harmony Link by 2025 is a challenge, but it is feasible\], BiznisAlert.pl, 27 May 2019; Emmet Tuohy et al, *The Geopolitics of Power Grids*, pp. 41-45.](#)

¹³⁵ Wojciech Jakóbiak, [“Jakóbiak: Harmony Link, czyli jak Polska pomoże krajom bałtyckim rozejść się z Rosją w pokoju” \[Jakóbiak: Harmony Link, or how Poland will help the Baltic countries to part with Russia in peace\] BiznisAlert.pl, 7 February 2019.](#)

¹³⁶ Piotr Stępiński, [“Litwa rozpoczyna przygotowania do budowy Harmony Link” \[Lithuania begins preparations for the construction of Harmony Link\], BiznisAlert.pl, 28 June 2019.](#)

¹³⁷ [“Polska nie kupi energii z Białorusi” \[Poland will not buy energy from Belarus\], TVN, 20 March 2017.](#)

CONCLUSIONS

Despite frequent political change—and occasional political turmoil—there is a high degree of continuity in the energy and climate policies of the Baltic region. It does not seem to be affected by the challenges of managing

There is a risk that the populist political forces—present in all five countries—may identify energy and climate as an attractive vector for stirring up a backlash from the societies against energy sector's transformation

complex coalition politics or inter-institutional relations. However, with the exception of Finland, this situation may be due more to the fairly low ranking of these issues on the agenda both of voters and of politicians (thus giving relatively free reign to policies devised by technical experts that align with the EU's overall policy) rather than due to any deeply-rooted, broad political and societal consensus.

However, continuous formal political support for energy transition and energy security goals is an important enabler of achieving them; the fragility of the governing coalitions in four out of five studied countries is a significant political risk factor that may impede further progress in implementing policies and strategies in place or, indeed, in enhancing national levels of ambition.

There is a risk, however, that the populist political forces—present in all five countries—may identify energy and climate as an attractive vector for stirring up a backlash from the societies against energy sector's transformation. Currently, these forces are not yet exploiting the issues of climate change and carbon neutrality to challenge the alignment of national goals with the EU policies. However, this may well change as the details of the European Green Deal start emerging and the national goals come under greater scrutiny. Estonia's and Poland's cautiousness regarding the high level of European climate ambition is indicative of the domestic political constraints

faced by these two countries—and by the region as a whole. The political risk is that, as the economic costs of energy transition become more apparent and the socio-economic implications to vulnerable populations become evident, this will become yet another issue to be exploited in political attacks on what is often framed as 'Brussels diktat'. The expected severe economic fallout from the lockdowns imposed to contain the coronavirus pandemic will reduce governments' ability to enact the costly measures seen as necessary to address the climate emergency. The existing political will, in the absence of much stronger

public interest in and support to the energy transition in some of the studied countries, should not be taken for granted.

The European Green Deal will be a major 'game changer' for all five nations, but it will be further deliberated and discussed in the fragmenting—and rather confrontational—domestic political landscapes where new election cycles are starting (Poland, with a presidential election slated for June) or are about to start (Lithuania, which will hold its parliamentary elections in October). If short-term negative trends such as electricity price increases or labour market shocks due to layoffs in legacy industries (e.g., fossil fuel mining) occur, it is not difficult to see how this could translate into politically motivated attacks

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on the commitments and objectives that flow from the European Green Deal. Much will depend, of course, on the degree of financial support and mitigating measures ultimately provided as well as on the depth of the post-pandemic economic downturn; but no one should expect a smooth and politically uncontested process of decarbonisation.

In this regard, the emerging positive political narratives in most countries about the European Green Deal as a major opportunity are very important in shaping public perceptions and furthering political discourse. In the ideal world, those narratives would counterbalance negative sentiments and prepare fortify societies to bear the short- and medium-term pain for long term gain.

Yet, negative populism is often stronger and more rewarding in short-termist domestic politics; accordingly, it will inevitably be a significant factor in national energy and climate policies in the context of the European Green Deal in the coming years. Again, with the exception of Finland, the electoral events of 2018-19 have done little to

Security remains a paramount consideration in the region, especially in the present geopolitical context—where Russia continues to use energy dependencies as a tool of coercion and expanding its malignant political influence. It weighs heavily when pursuing long-term energy transition targets and goals and, occasionally,

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Still, the economic forces, regulatory frameworks, prosumer support schemes, technological developments and infrastructure investments seem to be tilting the entire game towards less-polluting sources of energy (e.g. natural gas) and more widespread adoption of renewables across the region

establish, across the region, the dominance of a positive narrative of opportunity for economic development driven by energy transformation.

Still, the economic forces, regulatory frameworks, prosumer support schemes, technological developments and infrastructure investments seem to be tilting the entire game towards less-polluting sources of energy (e.g. natural gas) and more widespread adoption of renewables across the region. Fundamentally, even the most conservative political players seem to understand that energy transition is inevitable, and that only the questions of speed and cost (as well as the scope of socio-economic mitigation) are contestable.

More importantly, it is becoming increasingly obvious that there are synergies between energy transition on the one hand and energy security solutions on the other.

may run counter to the latter (e.g. by challenging Estonia's self-sufficiency in electricity production based on domestic reserves of oil shale). One blind spot, however, is regional coordination. As regional integration of energy markets and infrastructure continues making significant progress, and as nations become ever more inter-dependent, their lack of coordinated approach in planning and implementing various measures of energy transition may eventually jeopardise energy security throughout the entire region. Furthermore, their lack of coordinated—even synchronised—approach to state aid provided to energy producers (including in the RES sector) may undermine the level playing field required for the proper functioning of integrated regional markets.

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Some of the studied countries seem to realise that they might face deficits of electricity production capacity after retiring old power generation units in the coming years, and that

increased cross-border trade flows might not be a sufficient solution—as such capacities might become equally scarce in neighbouring countries. This opens up windows of opportunity not only for investors interested in bolstering domestic power production capacities, but also to advocates of continuing imports from Russia or Belarus—regardless of the impact such imports have on domestic producers, the environment (thanks to the uneven playing field enjoyed by producers in those two countries), or, indeed, potentially corrupting influence on the politics of importing countries.

Although practical implementation of strategic energy projects such as synchronisation with the Continental European system is going forward, the risk of tensions over diverging

the studied countries. Whether in shaping the European Green Deal and exploiting the opportunities that will flow from it, or in maintaining resilience in the face of Russia's continuing malignant influence in the energy sector, such cooperation and coordination will remain of pivotal importance to the future prospects of the region.

The outcome of the electoral cycle of 2018-2019 has not undermined or eroded the cross-regional consensus on ongoing strategic energy projects; however, it has done little to advance more coherence and convergence on the next round of challenging issues that the region will inevitably face. While the region's countries have largely relied on Brussels to broker compromises (often with the help of considerable funding) in a post-pandemic world, both the political bandwidth and financial resources will likely be constrained. Given the significant economic, human, and political changes underway as a result of the pandemic, however, it is an open question to what extent the region can weather the far more turbulent times ahead. Yet, there is a new generation of political, societal and business

leaders emerging in most, if not all, five countries eager to address common challenges in energy and climate policies. It will increasingly be up to them to come together to share best practices and work out joint solutions that will maintain the wider Baltic area as a great success story not only in energy security, but also in an energy transition that will someday make a carbon-neutral Europe possible.

Whether in shaping the European Green Deal and exploiting the opportunities that will flow from it, or in maintaining resilience in the face of Russia's continuing malignant influence in the energy sector, cooperation and coordination will remain of pivotal importance to the future prospects of the region

national threat assessments and perceptions remains—as captured by the debate surrounding the Astravyets NPP. This divergence may well put a strain on political solidarity in managing potential crises as well as resolving issues in strategic projects that require political intervention and political will. The need for more regional cooperation, coordination and solidarity is a recurring theme in this report, and is clearly interlinked with all

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